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The ECONOMIC DIGEST

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ECONOMIC RESEARCH COUNCIL

Our Service to Readers

Questions answered—Sources indicated—Facts checked

Since first offering this Service in the January 1949 issue, the Editors have been able to give assistance to numerous readers in matters that fall into one or more of the sub-titles described in this announcement. It is hoped that many more readers will avail themselves of this free Service, taking advantage of the resources that can be offered by the Economic Research Council to both professional economists and those who read this journal by avocation.

It is possible to present in THE ECONOMIC DIGEST only a small part of the mass of reading matter—reviews, speeches, private papers, as well as newspapers, journals and books from all over the world—scanned by the Editors and staff every month. The task of covering every sphere of economics, however, provides the Editors with material which they believe can be of great value to certain readers.

Subscribers are invited to submit any questions concerned with economic facts or to submit their own writing or theses for factual criticism which, for obvious reasons, cannot be elaborate.

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The

ECONOMIC DIGEST

FEBRUARY, 1951 VOLUME IV NUMBER TWO

Joint Editors: Sir Geoffrey Bracken, K.C.I.E., C.S.I., H. S. Goodwin

To Our Readers and Subscribers

Please allow us to repeat and amplify the announcement made last month: that the Economic Research Council has now assumed the management of Economic Digest, as well as the editorial responsibility which it has borne throughout the lifetime of the magazine.

It has been our good fortune to receive many expressions of approval and encouragement, and of course that has given us pleasure. But we emphasize that we are always equally grateful for criticism and suggestions. Particularly we should like to hear from any subscriber if in future there is any serious delay in delivery of Economic Digest. Our aim is that it should reach every subscriber in the British Isles on the first day of the month of issue, and subscribers overseas as soon as possible thereafter.

The Economic Research Council is a properly-constituted research body, and is so recognised by the British Government. The Council exists for the spreading of economic knowledge, and Economic Digest is a means to that end—free from any kind of political bias and from any desire to propagate any particular economic doctrine.

Subscribers can help in two ways: (1) *By the prompt renewal of their subscriptions as they fall due;* (2) *By continuing to introduce Economic Digest to others who may be interested, in which respect we are already greatly in their debt. A note to us suggesting possible new readers will be appreciated.*

Geoffrey Bracken
H. S. Goodwin
Editors.

18 South Street,
London, W.1.

"Fair Shares" Reconsidered

By Professor A. C. Pigou (Cambridge)

Experience shows that there is much less in our grandfathers' fears than they supposed.

The term " fair shares " is a political slogan without meaning until the term " fair " has been defined. The intention behind the slogan is, however, plain enough. The part of the nation's real income that is needed for the government's own use—armed forces and so on—ought to be provided in large part by taxes graduated steeply against large incomes; and, over and above this, further resources ought to be collected in additional taxes on better-to-do people and used for the benefit of poorer people. That description will serve our turn.

Most people agree nowadays that the large inequalities among available (post-tax) incomes that existed before 1914 were in themselves wasteful of welfare and that State action to reduce them along the lines indicated above, *in so far as it did not lead to injurious side effects*, was desirable. But injurious side effects *may* come about. Hence two questions present themselves. First, if a given degree of equalisation is to be secured, how do the side effects of various ways of securing it differ from one another; can we say that some ways are likely to be more harmful than others? Secondly, how far can egalitarian policies, operated by any given combination of methods, be carried before that point is reached at which to press them further would do more harm through their side effects than it would do good directly?

Among ways of using resources for the benefit of poor persons, especially obvious ones are the provision of subsidies on articles mainly consumed by them and direct payments to them in the form, for example, of non-contributory old age pensions or family allowances. To the subsidy method as compared with the other it is often objected that a part of the money paid out is bound to come back to the very people who provide it. It seems silly to make a rich man pay a tax to the State to enable that same man to buy his bread or his eggs cheap. With direct payments this silliness *could* be prevented, because, in accordance with the principles of the old Poor Law, the payments could be confined to poor persons. That, indeed, involves a " means test ", to which, in the present climate of opinion, many people strongly object. Non-contributory old age pensions are, in fact, subject to a means test. If, as might well happen, they were not, this form of direct payment would be in the same boat with subsidies.

Against Subsidies

Apart from this, the principal objection urged against subsidies is that they divert production and purchases out of their " natural channels"

From " Control over Prices and the Distribution of Incomes " District Bank Review, Manchester December, 1950

towards the subsidised articles; whereas direct transfers do not interfere at all with the beneficiaries' freedom of choice. *Prima facie* this is a reason for preferring direct transfers. But it must not be overstressed. Thus, as regards fundamental necessaries, it may well be that people will buy very nearly as much at high prices as at low ones; so that, if the prices of these things are reduced by subsidies, the money saved by consumers is spent not on them, but on things in general, just as money directly transferred would have been. Moreover, while there is a *presumption* that people, if their choice is left free, will spend their money more effectively than if they are interfered with, this presumption is sometimes wrong. What they *want* most is not always what they *need* most. They may not, for example, be inclined to spend as much money on hygienic housing or on education as in their own interest they " ought " to do. For elementary education there is, by general agreement, not only a 100 per cent. subsidy, but also compulsory attendance. Thus in this field it is impossible to generalise. The side effects of some subsidies, as against direct transfers, will be bad, those of others good.

This problem of comparison is, however, a subordinate one. What side effects are to be looked for from an egalitarian policy, entailing, as it must, heavily graduated taxes on the rich, irrespective of whether the transfers to the poor are made through subsidies or made directly? Before the first World War this question was not very important. It had, of course long been customary for the State to provide at public expense for people threatened with " destitution ". But the merely poor were expected, in the main, to fend for themsleves, It was no part of the State's duty, except in a few special cases, to make provision for them. Now the social activities of public authorities are much enlarged, and our question has become very important. How then will the size of the economic cake be affected if the State intervenes to enlarge the proportion of it that goes to poor persons?

Less to Share?

Fifty years ago the dangers that an egalitarian policy might have for the poor themselves were strongly stressed, and that not only in the thinking of the well-to-do. Work by those whose work was most valuable would be cut down. Variable incomes being hit by graduated taxes more severely than steady ones, enterprise would be discouraged. Investment would be checked, partly because the richer a man is, the larger the proportion of his income he is *able* to invest, and partly because the prospect of high taxation on the fruits of investment makes those affected less *willing* to invest. The tendency is cumulative; for reduced incomes, resulting from diminished investment, make the rate of investment contract still further. The poor, while getting a *larger proportion* of the cake, might well find themselves with a *smaller absolute amount*. So the argument ran.

Much less weight is now laid on these considerations. People who are capable of valuable work and those who are venturesome by nature are not, it is pointed out, influenced in the main by the prospect of large rewards. The lure of the battle itself urges them on; sometimes too the hope of approval by people qualified to judge their work. Leading men in science or literature or government or administration would not in fact become idle if their salaries were halved, or scintillate with new life if they were doubled. Furthermore, it is now realised that resources engaged in building up the health, strength and

intelligence of poor people are not merely "spent" but are invested for a future return; invested too in a way that, through reactions upon the fortunes of children, may be cumulative. To put more into *people* at the cost of putting less into *machines* may thus make the economic cake larger and not smaller. This does not mean that there was *nothing* in the fears that our fathers and grandfathers entertained. It does mean that there is much less in them than used to be supposed. It is generally agreed that a substantial measure of egalitarian policy can be carried through without producing injurious side effects that outweigh the direct gains. The live issue is not whether *any* transfers can be made with advantage, but at what point the net benefit from further transfers ceases. Precise analysis in quantitative terms in this field is impossible. But at least the menacing figure, before which men's generous impulses at one time quailed, looks less menacing now.

COMMODITY PRICES RUN RIOT

U.S.A. Spot Prices Since Devaluation

	Sept. 16, 1949	June 23, 1950	Nov. 21, 1950	Dec. 11 1950
Rubber (Natural)	100	147	356	340
(*Latest price*: 63 *cents per lb.*)				
Wool(*)	100	172	269	274
(*Latest price*: 231 *pence per lb.*) ...				
Zinc (East St. Louis)	100	150	175	175
(*Latest price*: 17.5 *cents per lb.*)				
Coffee	100	156	168	172
(*Latest price*: 55 *cents per lb.*)				
Cocoa	100	158	176	164
(*Latest price*: 33.5 *cents per lb.*)				
Cotton	100	115	148	143
(*Latest price*: 43 *cents per lb.*)				
Copper (Electrolytic)	100	128	139	139
(*Latest price*: 24.5 *cents per lb.*) ...				
Tin	100	74	141	136
(*Latest price*: 140 *cents per lb.*) ...				
Jute(*)	100	132	123	126
(*Latest price*: £118 *per ton*)				
Lead	100	76	112	112
(*Latest price*: 17 *cents per lb.*) ...				
Wheat	100	101	106	110
(*Latest price*: 235 *cents per bushel*)				
Oil (East Texas Crude)	100	100	100	100
(*Latest price*: $2.65 *per barrel*)				

(*) United Kingdom quotations

From Statist, London, December, 30, 1950

Spotlight on Capital Gains

By EUAN COOPER-WILLIS (Cambridge)

A tax on Capital Gains, already imposed in America, is a highly probable new Tax in Gaitskell's first budget

IN the modern world the main inflow into the bath representing property is due to the capital gains of financiers and speculators. Here is the target for a selective measure which, if successful, will solve the whole problem in the medium term. Evidently the necessary measure is a tax on capital gains and, while such a tax is open to administrative difficulties which the writer does not feel entirely competent to assess, it cannot be altogether impracticable, since in America such a tax has been working since 1924 or even earlier.

Let us begin by considering the American tax. In America, all capital gains made by individual or companies from the sale of any type of property other than normal stock in trade are subject to tax. Short term gains, those made in six months or less, are treated exactly as if they were additional income and taxed at the appropriate rates. Long term gains are halved for tax purposes and the highest rate payable on the half is 50 per cent.; so that 25 per cent. is the highest rate paid on a long term gain. Gifts are counted as capital gains; genuine bad debts as capital losses. Capital losses can be set against income up to a maximum of 1,000 dollars or may otherwise be carried forward for five years.

There seems no reason why a similar tax here should not follow American practice fairly closely, with the following exceptions. Rather than one single distinction between short and long term gains, different rates of tax might distinguish gains made in one year, in five years, in ten years, and in more than ten years; or, perhaps better, a gain made over a number of years might be taxed as if it had been made in equal steps in each year, so that a gain over ten years would count as ten yearly gains of one tenth of the amount. Secondly, it might be worth introducing a minimum below which no tax would be paid or loss claimed—perhaps £500. This limit would much reduce the tax authorities' work, and remove from the scope of the tax a multitude of small transactions, gambling gains, etc., which would often probably be concealed with little risk of detection.

Thirdly, a socialist capital gains tax would be a great deal more severe than the American one, as our income taxes are so much higher. The capital gained above the exception limit would be added to the taxpayer's income and taxed appropriately. The tax would act very neatly to close the gap in the death duties caused by gifts. It would fall on large gambling gains and so tend to check that doubtfully productive industry. As for administrative details, the experts of the Revenue Authorities are the only people qualified to discuss them finally. We can, however, make certain general points.

Evidently, some evasion would be possible, but it is also possible to

From "Towards Equality" Fabian Society, London, December 4, 1950

evade income tax and a check would be possible at death. Evasion could be made harder, if certain types of Stock Exchange transaction involving more than some minimum sum were automatically reported to the Inland Revenue, and if the same were done with all payments above a certain sum made by companies to individuals (not subject to P.A.Y.E.). At the same time legislation could be introduced to prevent, or hamper, stock exchange deals, through "dummy intermediaries," under false names, etc.

Is It Just ?

We come now to questions of principle and of economic effects. First of all, a good deal of argument on the grounds of equity can be made for and against any proposal of this type. On the one hand, it may be said that a capital gains tax is less fair than a levy. The gains tax leaves the man who has £100,000 untouched, while the man who has just made £100,000 pays most of it to the State. But equally one can reply that no-one need pay the tax, if they do not sell their assets at a large premium. That it is just as unfair that our society should enable one man to make large tax free gains while another man pays tax on his income derived in some cases (e.g. the stockbroker) from exactly similar work. Finally, one may argue that in altering an unjust situation (our distribution of property), one must do so in a manner which causes as little suffering as possible: and that, since it is much more unpleasant to part unexpectedly with what one has for long enjoyed than to pay as a matter of routine some of what one has just gained, it is kindest to leave existing fortunes to be reduced at death and to prevent new ones from developing.

As for political questions, such a tax would be hard to oppose. The public instinctively disapproves of speculators and the number of people involved in the tax would be small: though the results would be, over 10 years or so, very important.

There is also the question of incentive. We have argued that we need not care in the least if financiers are discouraged or not. Any function they fail to perform as a result of the tax could be more cheaply carried out by the State. The earnings of management of business men interested in actually producing goods would be unchanged, since they are income: and, though some of them are not averse to a capital gain when it can be obtained by, for instance, turning their firm into a public company, the large sums which, as we have seen, they pay themselves as directors' fees are surely enough to keep them at work. The small business man has probably little chance to make a capital gain in the ordinary course of business: since it is only when he gives up and sells his business, or when it grows significant enough to become a public company, that he gets his opportunity.

Discouraging Invention

There is a special argument which may be mentioned here. That, while for the most part the reasoning above is correct, there is the risk of discouraging the use of new inventions and processes. The argument imagines the small business man starting a firm to exploit some new discovery, and only able to raise money by the prospect of very large capital gains for the investor if he succeeds. There are a number of objections to this argument. First, how often are important new processes exploited by new and independent firms? Surely they are more often employed by great corporations with capital to spare, and whose research laboratories produce so many new ideas. These firms are unlikely to embark on the

wild gambles which only occasional large rewards justify. Secondly, in seems doubtful if the business may of the argument could get money from the financial world if his prospects of success were so dim that only the vastness of the possible profits could outweigh the improbability of receiving any. In such cases it is more usually friends and relations who put up the necessary capital and their operations are unlikely to be on such a scale that some reduction in the ultimate gains would make much difference.

Finally, it could in any case be only sensible for the state to provide for any reduction in enterprise which followed from taxation of capital gains; by being ready to lend money at reasonable rates of interest to finance new and small firms which appeared to deserve it.

EVER INCREASING DEMANDS ON NATURE'S RESOURCES

Striking Comparison between 1900 and 1950

The draught on Nature's mineral resources since the year 1900, in terms of 11 major products, has been in tonnage of extracted mineral products irrespective of values or prices, of the order of three and a half times the rate at the beginning of the century

The following table gives world figures for 1900 and 1950, though the latter are necessarily rather round estimates in some cases.

	1900	1950
COAL	767,000,000 tonnes	1,689,000,000 tonnes
STEEL	41,310,000 ,,	175,000,000 ,,
COPPER	497,000 ,,	2,400,000 ,,
LEAD	849,000 ,,	1,290,000 ,,
TIN	85,400 ,,	142,000 ,,
ZINC	465,000 ,,	1,692,000 ,,
ALUMINIUM	7,340 ,,	1,300,000 ,,
NICKEL	9,500 ,,	120 000 ,,
GOLD	12,420,000 f.oz.	25,000,000 f.oz.
SILVER	174,000,000 ,,	172,000,000 ,,
PETROLEUM	149,140,000 bbl.	3,500,000,000 bbl.

The proportionate increases, of course, vary enormously. Petroleum is the young giant of the mineral family and for a long time past each year has established a fresh record. At the beginning of this century, aluminium was hardly an industrial metal; now, on a volumetric basis, it takes second place to steel. Coal, in its somewhat venerable age, has not much more than doubled and finds it hard to keep abreast of the times. Copper has increased nearly five times; zinc production has been enhanced nearly four times, but lead and tin show increases of only about one and a half times. Gold, so far as we can estimate it, with Russia an unknown quantity, is just about double the production rate at the beginning of the century, though output was far higher at the outbreak of the last war. Silver, overshadowed by the spectres of bimetalism, special legislation and price manipulations, shows no gain.

Ever since the end of the last war a new element has claimed widespread interest and activity in the shape of the atomic source minerals beginning with pitchblende. Official secrecy screens this field of mining activity but it is undoubtedly very extensive and if industrial developments fulfil hopes it may well take an important place in future world economy.

The enormous cumulative draughts on nature's irreplaceable resources during the past 50 years raise in an increasingly imperative form the shadow of a mineral supply famine.

From Mining Journal, London, January 5, 1951

Britain's Investments in U.S.A.

The total of U.K. investments in U.S.A. is substantial despite War Finance. How these millions are handled is politically as well as economically important

AMONG the many interesting facts brought out in the Bank of England's survey of United Kingdom Overseas Investments 1938—1948 is the size of Britain's remaining investments in the United States. The nominal capital represented by these investments ("securities quoted on, unofficially dealt in, or otherwise known to the London Stock Exchange") amounted to £268 million at the end of 1938 and had fallen to £88 million at the end of 1945 and to £75 million at the end of 1948. But the interest and dividends on these investments, which had yielded £7.1 million in 1938, had fallen to only £6.9 million in 1945 and had risen to £7.9 million in 1948.

The contrast between movements in these nominal capital and income figures shows with what reservations the nominal capital totals should be used. The reduction of the total over the 10 years covered by the Bank of England's survey is a measure of the sales of marketable securities in the early period of the war, before Lend-Lease came to Britain's rescue and removed the need for any further "scraping the bottom of the barrel."

The income figures show that in terms of revenue the barrel was far from empty; but in terms of gold and cash, and of securities for which a reasonably receptive market could be found in the United States, the emptying process had gone about as far as it could be pushed when Lend Lease came into operation in March, 1941. It was at that time that the British gold and dollar reserve touched bottom at a mere $12 million, and when orders placed with American factories and Britain's other dollar commitments were beginning to run beyond the billion dollars mark. Fortunately, the most marketable investments were not necessarily the most remunerative. Despite the liquidation of some £180 million (nominal) of these investments during the war, the income from what remained unsold, mainly direct investments, increased almost sufficiently to offset the loss of income on what was sold. The position is sufficiently intriguing and important from the point of view of Britain's dollar balance of payments to deserve closer investigation.

Towards the end of 1940 the British Government, having sold all the marketable securities which the American market could at that time conveniently absorb, began the much more painful and distasteful task of disposing of direct investments for which there was no quotation and no free market in the United States. The first of these operations was the sale of American Viscose Corporation shares to the American public through a New York banking syndicate. This

From Barclay's Bank Review, London, November, 1950

sale secured a net receipt of $54 million for the Treasury, a figure well below the true worth of this investment both to its parent company, Courtaulds, and to Britain. In later years Courtaulds received compensation of over £27 milion for this sale, the margin between this figure and the dollars secured by the operation being some measure of the sacrifice it involved for the nation.

Although Lend-Lease was fast coming to the rescue, other sales of direct investments were considered at the time though the idea met increasing resistance from Britain.

The answer to the problem was found in a loan of $425 million obtained by the British Government from the Reconstruction Finance Corporation, an agency of the United States Administration. Against this loan there was pledged the bulk of the remaining unsold British securities in the United States. These consisted of marketable securities, direct investments, insurance companies controlled from Britain, and American branches of British insurance companies. This loan was never used to the full. Only $390 million had to be drawn, an amount sufficient to finance British dollar needs until Lend-Lease got into is stride.

Inclusion of direct investments in the collateral pledged against the Reconstruction Finance Corporation loan made it possible for British enterprises in the United States to maintain intact their industrial, financial and management connections with their parent institutions, while at the same time contributing to the dollar reserve. It was provided that the income on these collateral securities should be used in the first place to pay interest at 3 per cent. on the outstanding amount of the R.F.C. loan and that the balance, together with any amounts realised by the sale of these securities, should be applied to repayment of capital.

Mr. Fred M. Vinson, then Secretary to the U.S. Treasury, in the course of hearings on the Anglo-American Loan Agreement, before the U.S. Senate Banking Committee early in 1946 said that the collateral at the end of 1945 was as follows:—

	Million Dollars
Quoted and marketable securities	360
Net value of insurance companies owned by United Kingdom	210
Net value of American Branches of British insurance companies	220
Other direct investments of British companies in the United States	105
	895

At the end of 1945 the capital of the R.F.C. loan outstanding had been reduced to $260 million, so that even at that period the value of the collateral exceeded the amount owing by the British Government by $635 million. That excess will have increased considerably over the subsequent years, partly owing to the appreciation of the marketable securities in the collateral and partly owing to the steady reduction in the amount of the loan outstanding. The latest financial statement presented with the Budget to the House of Commons last April showed that the balance of the loan from the Reconstruction Finance Corporation had been reduced to £33.5 million on 31 March, 1950, or $93.8 million. If the value of marketable securities is adjusted to the changes in the Dow-Jones Index of Industrial Securities, it would appear that the value of this part of the collateral on 21 March last would have risen from $360 million to $400 million. Assuming no change in the value of the other investments included

in this collateral—a very conservative assumption—this would place the excess in the value of the collateral, over and above the amount of the loan outstanding, at about $840 million on 31 March last.

As the amount of the loan outstanding diminishes, the rate of capital repayment increases, since the interest bill becomes progressively smaller and a correspondingly larger part of the income yielded by the investments pledged as security can be used in repayment of capital. Over the British financial year 1949-50, the liability under this R.F.C. plan was reduced by $38 million. Allowing for the increased rate of repayment, it may be assumed that the loan will be finally repaid in the early part of 1952.

As from next year, however, interest will become payable on the dollar loan of $4,400 million negotiated with the United States in 1945. This will require at the outset an annuity of $140 million, of which at first $88 million will represent interest payment (which may be waived in certain circumstances) and the balance of $52 million will be repayment of capital which must be made unless entirely new dispositions are agreed about the treatment of this loan. It will thus be seen that our dollar position will feel little apparent benefit from the freeing of the collateral now tied up as security against the R.F.C. loan.

A delicate but interesting problem which will present itself to the authorities in this country, when the loan is finally repaid, is the disposal of the investments now pledged as collateral. The decision will offer little difficulty in the case of the direct investments and the insurance companies. The ownership of these has throughout remained with the parent companies in Britain and has never been vested in the Treasury. When, therefore, the collateral is freed, these direct investments will return to the owners who will have control of the income derived from them, subject, of course, to the requirements of exchange control at the time.

It is in dealing with the marketable securities that the British Government will have to make decisions. These marketable securities are to-day probably worth $430 million. They range in character from the best of American "blue chip" stocks to virtually valueless dollar securities that were in British ownership at the beginning of the war. A small part of this total consists of securities, the ownership of which was never vested with the Government. They were borrowed from the owners by the Treasury. In a few cases the securities so borrowed were subsequently purchased outright by the Treasury. But a modest holding is still held on borrowed terms and will revert to the unfettered control of the owners when the loan is repaid.

The real problem will arise in deciding what to do with the much larger proportion of the marketable securities whose ownership has been vested in the British Government. Three possible lines of action suggest themselves:

(1) The first is that they be returned to the original owners from whom they were secured in the early years of the war. The main argument against this course is that the vesting operation some ten years ago was in each case definitive and that the owners were compensated in sterling at the take-over prices. Why, it might be asked, should the owners of securities which were pledged as collateral for the R.F.C. loan, be treated differently from the owners whose vested securities were sold in the American market in the early years of the War.

(2) A second possiblity would be

Concluded on page 60.

How to Encourage Saving

That higher interest rates should be offered for long period saving is the attractive proposal here made.

TAKEN altogether it would seem that Savings Movements could become too much occupied with building up receipts and pay too little attention to raising the standard of saving. Because of dis-saving it is understandable that there should be such hot pursuit after the type of savings which are the most easily available. But if in consequence long-term savings are flagging, would it not be as well for some deflection of effort from other activities in order to put this matter right?

Yet something more than this corrective may be needed. Good results cannot be expected without incentive but, as with all stimulants, the choice will depend on the nature of the complaint. Because published figures so regularly give prominence to dis-saving it is not surprising that the popular prescription is higher interest rates and increased maxima for individuals as regards savings deposits and holdings of savings securities. To bolster up figures by this method would, however, not be satisfactory, since there would be no means of discriminating between temporary and more permanent savings. If the former money is easy to bring into the Movement and yet just as easily lost, this surely calls for a weighting of inducement in favour of long-term savings. In this way unreliable money would be penalised and dependable savings rewarded, and so offer an opportunity for rectifying the existing maladjustment of "shorts" to "longs".

Such a suggestion does not imply any disregard of principles which are sacrosanct to the Savings Movement. Within the existing structure of the pivotal rate of interest and maxima savings facilites there is the useful machinery of deferred interest, and further manipulation here might be expected to achieve something which would both augment and improve the quality of saving. That deferred interest has contributed to the stability of savings is demonstrated by savings certificates, the encashment of which does not increase when repayments of other forms of savings are steadily mounting. Now the recognised feature of deferred interest is a "bonus" at the end of the contractual period of saving or a "penalty" on premature encashment. The relatively small repayments are evidence of the steadying effect of this deferred reward: it is however important to observe that the ultimate cost is to some extent borne by those savers who sacrifice interest by making early withdrawals.

Here surely is an ingenious device standing between saving and spending. Having already been used to such good purpose, is not this the mechanism we should now use to even great effect? There would be no break with fundamental principles if an increase in the rate of interest were accompanied by an extension in the contractual period of saving. A concession in regard to interest would be partially offset by reduced claims

From "Inflation and the Role of Saving" District Bank Review, Manchester, December, 1950

consequent upon the inevitable increase in encashments associated with the longer savings period. Indeed, because the glitter of the ultimate reward may, as in the past, be expected to outshine the possibilities and penalties of a premature encashment, it might even be practicable to graduate the deferment of interest sufficiently to permit a higher maximum of savings per individual.

Because of precedent it might seem that deferred interest must not be extended beyond savings certificates and that therefore the suggestion is not comprehensive enough to solve a problem which also includes savings deposits. May it not be, however, that in the situation in which we now find ourselves precedent is no guide and would it not therefore be possible to break with long practice and extend the principle of deferred interest beyond certificates to savings deposits?

If these were done the way would be open for increasing long-term saving and this should enable the Movement to become a stronger bulwark against inflation. To increase its effectiveness still further it only remains to offer less inducement for short-term money—a logical and practical course since it is pointless to pay too much for money which experience has long shown can be obtained so easily. Incidentally, the saving resulting from the curtailment of interest here would of course offset the higher rate advocated for more permanent saving.

The adjustment of either of these rates would infuse new strength into savings, but together their complementary action should have an effect so salutary as to enable the Movement to assume an even more purposeful role than hitherto against the rising tide of inflation.

Britain's Investments in U.S.A.

Continued from page 58

the sale of the securities in the American market. Given the size of this block of investments, any such operation would have to be handled with extreme care and would have to extend over a considerable period. Even so, the knowledge that such a large block of securities was being liquidated, together with the fact that the securities in question are known (they can be ascertained from reports of the Reconstruction Finance Corporation) would be calculated to depress the American security markets. If the securities were sold in Britain the operation might be a tempting channel for a flight of British capital into dollar securities. To sell these securities in the American market and convert the proceeds into cash, would help the British gold and dollar reserve, but it would have the great disadvantage of dissipating a block of income-earning securities which it might be desirable to hold as a nest-egg.

(3) This leads to the third possibility, namely, that of the securities now in the ownership of the British Government remaining intact as the initial portfolio of an investment trust run by or for the Government. The knowledge that a State-owned investment fund of this size was operating in the United States security markets might cause criticism in that country. Yet, that would be one way in which to keep this substantial holding of investments intact and fructifying.

State Planning in a Liberal Economic Context

By C. Bresciani-Turroni
(President, Bank of Rome)

A CONVICTION is growing in a number of countries to-day that an economic system which throttles private initiative, and suppresses free competition and the free market, is not adapted to normal conditions and normal requirements because it paralyses the strongest motive force of economic progress and makes it difficult to secure lower production costs.

Similarly, the idea is gaining ground that any future economic order must once again leave open a wide field of activities to private enterprise, though in view of the tremendous tasks imposed by the requirements of post-war social and economic reconstruction the State will have to guide the economic system in a definite direction for a long time to come and not merely during a short transitional period.

How can these two demands for State guidance and yet private enterprise—be reconciled? That is a question which has still to be decided.

Many seem to think that the solution is neatly summed up in the slogan: Leadership to the State; execution to private enterprise. Now everything depends on what is meant by "leadership". Even the old liberal State retained the ultimate control of the economic system in its own hands; it decided what tariffs should be imposed and it signed trading agreements which guided the economic system of the country into certain productive channels and deflected it from others. In addition there was the regulation of the monetary system and the activity of the central issue of banks; the organization of the transport system and, finally, the introduction of various social reforms. But this system of encouraging and directing did not interfere with the mechanism of the market which remained in full force, with the result that economic equilibrium was able to re-establish itself, though perhaps at a level different from that on which it would have come to rest had certain forms of State intervention not taken place.

But if "leadership" is to mean—as the present advocates of economic planning seem to think it should—that the State is to fix commodity prices, wages and the rate of interest, to limit the freedom of the worker to choose his own job and the freedom of the employer to choose his own labour-power, to allot quotas of raw materials and capital, to forbid the founding of new businesses or the extension of those already in existence, and to introduce a whole system of prohibitions, licences, quotas, etc., in respect of exports and imports, exchange control and so on, then it is not easy to see how the entrepreneur can be expected to develop any enterprise at all or be able to conduct his business in the most rational fashion.

Many people erroneously believe

From Economic Policy for the Thinking Man, William Hodge & Co., Ltd., London (21/-)

that the advocates of economic liberty are fundamentally opposed to all forms of State intervention. On the contrary, they have always insisted that absolute liberty is not possible even in the economic sphere, and that the State should define the limits of economic freedom, particulary in times of emergency like our own.

Lesson of Experience

As experience shows, under normal circumstances a free-market economy finds its proper level more or less rapidly thanks to the free play of economic forces, i.e., as a result of the reactions produced by the very disturbance of the economic equilibrium on individual producers or consumers. On the other hand, it is often necessary that a blanket measure should regulate the operations of the individual when disturbances arising in the economic and social order are of a serious nature. The difference between economic liberalism and all forms of economic planning refers in particular to the way in which the State intervenes.

Within the framework of a liberal economic policy the State defends the interests of the community and issues certain general regulations of an impersonal nature known to all, thus fixing the limits within which the individual may do as he pleases. When in such circumstances the State desires to attain certain certain ends it does not exercise any direct pressure on any particular individuals, but instead it creates a whole system of measures both encouraging and discouraging, which certainly influences the activity of the individual in the desired direction, but which at the same time leaves it open to him to make his decisions as he thinks fit in the given situation.

Let us suppose, for instance, that certain commodity imports are to be cut down. To this end the government introduces import duties. It is then left to the free decision of the individual merchant to what extent he should reduce his imports of the commodities in question.

To-day, however, with economic planning, both government departments and semi-official bodies decide even individual cases; they grant or refuse import licences, they permit or forbid private compensation arrangements; they grant allocations or refuse them; they give one entrepreneur permission to open a new factory and refuse permission to another. Instead of one rule valid for all we have unpredictable arbitrariness. The defects of such a system are known to everyone to-day.

During the course of the present transitional period it may be necessary to retain certain restrictions on economic liberty, but at least the existing system should be replaced by certain generally valid regulations which would make it unnecessary for officialdom to investigate each separate individual case and which would at the same time cut down the excessive powers over which it disposes to-day. In this way the necessity of State intervention can be reconciled with democratic institutions.

THE REVOLUTIONARY WEST

The really radical and revolutionary way of life does not lie in the East at all, but in the West. The ideas and aspirations of Western man are still the most startling thing that has ever happened to the human race. Stalin's views of man and society are, by comparison, mortally static and archaic. In fact, the world today presents the astonishing spectacle of Western man sleeping unaware on the powder keg of his own revolutionary philosophy and the Stalinists leaping up and down proclaiming as a new revolution a view of man and society which was old when the Pyramids were built.

Barbara Ward in her new book—"Policy for the West"

Economics of Atlantic Union

By Howard Fox

American study shows that the economies of the Atlantic Union Countries are conveniently complementary and that federation is a practical proposition.

THE research division of *Freedom and Union* (organ of Federal Union, Inc.) has investigated what would happen to the United States economy if the United States, United Kingdom, Canada, France, and Benelux formed an Atlantic federal unit within which goods, men and money eventually (no sudden change without carefully prepared transition measures) moved among them as freely as within the forty-eight United States.

The findings of this inquiry, which was carried out by Mr. Louis Domeratzky (one-time chief of the Division of Foreign Tariffs, United States Department of Commerce), deserve the closest study by all interested in expanding the volume of world trade.

For the purpose of this inquiry it was assumed that the conditions sought did, in fact, exist: that goods, money, and men moved unhindered among the people of the United States, Canada, the United Kingdom, France, and Benelux. The general conclusions arrived at are as follows.

Industries in the United States benefiting directly from the creation of a full Atlantic Union are reckoned to be about four times as important as those that would face keener competition: "The number of persons employed in the favoured category is about four times greater. The total annual payroll of industries in it is more than four times higher. The value they add in manufacturing is also about four times as great. Whichever way it is measured, the result of the Union is four to one on the good side of the ledger for United States industry and labour."

Unexpected Facts

Perhaps surprisingly, the United States industries that could best compete are those now paying the highest wages. Those that would face the sharpest struggle against "cheap foreign labour" are precisely those paying the lowest wages. "The fact is that the . . . industries which would have more jobs to offer if this Atlantic Union were made already pay 20 per cent. more a year to their employees than do the . . . industries whose employees—or rather some of whose employees—might be hunting jobs after the Union was created."

Another unexpected fact brought to light by this research is that the United States industries that would face hotter competition if the American market were freely opened to British, Canadian, French, and Benelux enterprise form but a very small fraction

of the totality of American industry.

In 1947 these industries employed only 1,096,995 persons, or 7.7 per cent. of the whole labour force in manufacturing. In salaries and wages of this year payment was only $2,644,250,000 or 6.7 per cent. of the total paid to all Americans employed in manufacturing. The value they added by manufacture was no more than $5,259,537,000 or seven per cent. of the total value added to goods by manufacturing in the United States in 1947. Their total production, in other words, amounted to the 1948 value of the aid given to Europe under the European Recovery Plan, and only 57 per cent. of the total appropriations for E.R.P. up to August last.

" Assume the worst," declares Mr. Domeratzky, "—that Atlantic Union would force all this seven per cent. of United States industry to close down. Still it would cost the United States less than the current slice of the Marshall Plan to give all the employees of these industries all their present pay while they sought other jobs, even if it took them a year to find new work."

Moreover, the fact that these industries would have to meet keener competition if present tariffs were removed would not mean that they would thereby be ruined. Competition in many ways could be met successfully ; various transition measures could be adopted to tide them through the period of change.

General Conclusions

The research workers acknowledge that the indirect effects of the Atlantic Union on the rest of the United States economy are much more difficult to evaluate. They have, however, advanced some general conclusions. For example, trade, which employs 9,438,000 persons: the Union would help by lowering prices on many articles, whether through stimulating United States exports or imports. On the one hand, the Union's faster domestic market would allow lower prices in the United States for such mass-produced items as cars, refrigerators, etc. Thus, federal union, by allowing Detroit to sell cars freely in all the forty-eight States, permits them to be sold much more cheaply in Detroit than if the domestic market were limited to the single State of Michigan.

On the other hand, wherever Union faced United States producers with more competition from Canadian or West European manufacturers or growers, the effect would also be to lower prices for the United States consumer, or to give better value for the same money.

The benefit to the entire distribution branch of the economy would easily outweigh the local dislocations resulting from certain industries needing adjustment. Similarly, the direct and indirect beneficial effects of the Union would tend to stimulate building, financial services, and public utilities ; together these employ over 5 million. All this would combine indirectly to raise business for the 9,261,000 persons engaged in manufacturing the goods that would not be directly affected by the creation of the Atlantic Union.

Who Gets Hurt ?

The only important sector of Americans who might be indirectly hurt by the development of an Atlantic economic unit would seem to be those employed in government service ; about 5,813,000. Most of these would not be affected, although the removal of a wide network of present governmental interferences in trade would end a number of useless and unproductive occupations.

The countries so far proposed for Atlantic Union command not only

considerable natural wealth but also a great experience of commercial, financial and industrial undertakings. Some have been in the vanguard of world economic progress over two centuries.

By itself, however, such economic power would not suffice. Another factor of importance for the wholesome economic structure of the union, is "the extent to which the constituent countries would complement each other, and how far their production and resources would go to meet the needs of one another."

Under certain conditions, the degrees of productivity, and variation in economic structure between individual member nations, might be of strategic value. "Our experience with economic barriers since the first World War," writes Mr. Louis Domeratzky "enables us easily to visualise a situation in which a group of primary countries, with considerable natural wealth, might find it difficult to develop a sound union if handicapped by excessive dependence on the outside world for markets for their primary products, for capital and management for the development of their resources, and for supplies of manufactures."

This aspect of "pan-frontier economic integration" applies, of course, particularly to the Middle East and South-East Asia-Pacific regions; but the same might be true of a union of highly developed industrial countries, with a more or less similar industrial pattern, although dependent on outside sources for raw materials and foodstuffs.

At the moment, however, world economy is influenced "only to a comparatively slight degree by the ideal of international division of labour. In this situation, a well-balanced economic structure, based on an adequate supply of essential foodstuffs, war materials and foreign trade facilities, plus a wide range of industrial output, may be regarded as an essential prerequisite for economic unification."

The question posed by the survey is simply, "Would the proposed Atlantic Union enjoy this essential?" The answer is Yes.

Complementary Factors

The economies of the seven democracies which the Atlantic Union would bring together are strikingly complementary; much more than were those of the 13 States which came together in the federal union of the United States in 1787. The latter were predominantly agrarian; many produced the same commodities and they traded with England and Europe rather than with one another.

Research into the trade which the seven Atlantic democracies have been carrying on one with another in a relatively normal year (1938) illustrates this theme. In that year all of them did more than a quarter of their total foreign trade with the other six; some did much more.

In this year the United States sold 41.9 per cent. of its exports to the other six members. Thus practically 42 per cent. of the United States exports would have been classified as domestic trade had the proposed Atlantic Union then existed. In the case of Canada, 82.6 per cent. of the money it spent buying foreign imports in 1938 would have gone into domestic trade had the Union then existed. This would also have been true for upwards of 29 per cent. of French and United Kingdom imports, 36.1 per cent. of Netherlands imports, and 41.1 per cent of those of Belgium-Luxembourg.

So far as we in Britain are concerned it is notable that our trade with the other six theoretical members of the Atlantic Economic Union was the best balanced of all. We sold (in 1938) 27

per cent. of our total exports to them and drew in from them 29.8 per cent. of our total imports. Except for the United States, there was also a fairly close balance between the Atlantic exports and imports of all the other nations in this grouping.

The United States sold 41.9 per cent. of its exports to this aggregated market, but bought from it only 26.3 per cent. of its imports. It should be remembered in this connection that the whole effort of U.S. Administrations since the war has been aimed at rectifying this lack of trading balance.

Moreover, the extension of the Union to embrace other English-speaking members of the Commonwealth, and such other probable additional members as the Scandinavian countries and Switzerland, " would greatly increase the proportion of both import and export trade that the Atlantic democracies, and particularly Britain, would do within the Union."

Trade Directions of Proposed Atlantic Economic Union (as in 1938, in percentages)

	U.S.	*U.K.*	*France*	*Canada*	*Belg-Lux.*	*Netherlands*	*Total*
United States:							
Exports to	—	17.0	4.0	15.3	2.5	3.1	41.9
Imports from	—	6.0	2.8	13.5	2.1	1.9	26.3
United Kingdom :							
Exports to	4.4	—	13.3	4.6	1.7	2.8	27.0
Imports from	13.4	—	2.6	8.6	2.0	3.2	29.8
France :							
Exports to	5.5	11.7	—	0.5	13.7	4.4	35.8
Imports from	11.5	7.0	—	1.3	6.9	2.6	29.3
Canada							
Exports to	31.3	41.1	1.1	—	1.1	1.2	75.8
Imports from	62.7	17.6	0.9	—	0.9	0.5	82.6
Belgium-Luxembourg : ...							
Exports to	6.7	13.3	12.3	0.9	—	12.2	45.4
Imports from	11.0	8.0	11.5	1.4	—	9.2	41.1
Netherlands :							
Exports to	3.6	22.7	5.8	0.6	10.2	—	42.9
Imports from	10.8	8.1	4.6	1.1	11.5	—	36.1

NOTE—Overseas Dependencies are Excluded

Principles of United Nations Technical Aid

By D. H. KEENLEYSIDE

Director General, U.N. Technical Aid Administration

THERE is nothing new in a program for the exchange of technological information, nor is the provision of technical advice by the people of one nation to the people of another a procedure of recent origin. Indeed, as far back as we can trace the records such assistance has been used as means of welding political, cultural and social ties between nation and nation. Sometimes the motives have been purely humanitarian and disinterested in character, but more frequently the goal has been the improvement of commercial relations, the advancement of national interests, the maintenance of the balance of power, or the winning of economic concessions.

The unique feature about our new program is that here for the first time representatives of all the major nations have united in the establishment of a program under which they will pool their resources to give technical assistance on requests from Member Governments. They have agreed that this program shall not be a means of foreign interference in the affairs of the recipient country, and they have undertaken to provide the desired services in the form in which the recipient country prefers to secure them.

This action by the Assembly of the United Nations does not imply disapproval of the provision of technical assistances on a bilateral basis. But it does show clearly that the Assembly considered the establishment of a large-scale program of impartial, objective, and highly skilled technical advisory services divorced from national, business or extraneous subjective interests, to be a logical outcome of the declaration in the Charter of the United Nations.

This new and boldly dramatic acceptance of the principles of man's responsibility for man is designed not only to avoid competition between the various existing bilateral programs of technical assistance and the activities of the United Nations, but in fact makes imperative the fullest possible co-operation between all Governments that are parties to the programs. It ensures the institution of international economic co-operation between governments for the maintenance and the preservation of peace.

Services rendered by the United Nations must be of the kind desired by the government of the requesting country. They must be designed to meet its needs, must be in the form that it desires, and must be designed to strengthen its national economy and promote its political and economic independence. Such principles preclude the arbitrary imposition of schemes devised by foreigners to achieve the political or economic subjugation or exploitation of peoples

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of less highly developed countries. They prevent the adoption of schemes which would tend to weaken the national prestige or the independence of the recipient country.

Any program of economic development on which we embark within the national territory of a requesting country must be organically related to the economy of that country. Thus, in one country we may advise on and provide training in improved methods of organizing and operating indigenous cottage industries which are at present unproductive or uneconomical. In another, we may assist the government to establish legislation for the improvement of social conditions, or assist it to review its machinery of governmental administration. Whatever we do must be clearly and tightly related to the local needs as the local authorities all see them.

The reason for this emphasis on the principle of self-determination is not merely the natural right of peoples to formulate and control their own destinies for good or for ill. A distinction must be made between the technical knowledge and skills of the industrialized countries and their moral and cultural achievements.

He would be a bold and unwise man who asserted categorically the absolute moral or cultural superiority of the industrial civilization of Western Europe and North America over all aspect of the civilization of the under-developed areas. We must avoid the temptation to try to impose the moral and cultural patterns of the industrialized countries on the under-developed areas. The economically backward countries must be free to accept, to reject, to modify, to adapt in accordance with their own judgements or even their own prejudices. The assistance given by our Administration must be of such a character and must be so provided as to be capable of being incorporated into the developing normal life of the recipient country. What we can and should do, is to assist in the formulation of criteria of judgment; but the judgment itself must remain the inalienable right of the peoples concerned.

What we desire most of all in the recipient country is the will to improve the lot of its peoples. Today there are few under-privileged people in any part of the world who do not know that a better life is possible. Knowing, they aspire. The governments of such people are successful and are worthy of help only in-so-far as they strive with intelligence and good-will to meet these aspirations. The good government is the government that is able to mobilize the material resources of money, materials and personnel in a coherent and effective manner. But it is also the government that realizes the need of and is willing to embark on ventures involving social and economic change for the benefit of the majority of its people. In many under-developed countries, there is a conscious need for action of this kind. It is part of our duty to ensure that the real objective of the programs to which we contribute is the improvement of the general living conditions of the people. It has been already demonstrated in other spheres that many ambitious schemes of development are motivated by the desire to enrich the few even at the expense of the many. Fortunately, such has not been the experience of the United Nations, but the danger exists and we must be on guard against it. It cannot be too often repeated that the ultimate objective of our program is the improvement of the economic and social conditions of men, women and children all over the world. We are interested in governments only as a means to this end. It is the human beings that count.

Clearer Light on Soviet Economy

By Harry Schwartz

Russia's official statistics have been of little use to Western economists because they are published in terms of percentages of undisclosed target totals. The key document is now claimed to be in American hands.

WHILE Soviet leaders for the past five years have sought to hide major facts about their economic strength behind a shroud of percentages, American and other Western intelligence officials have been able to penetrate that screen because they possessed a secret Soviet economic blueprint as the base from which to work.

This key document is the secret Soviet economic plan for 1941, a detailed statistical survey of almost all brances of the Soviet economy. Its 750 pages contain a wealth of information that have not only illuminated the Soviet effort to prepare for war before Hitler's invasion, but also have provided basic data that have facilitated correct evaluation of Soviet economic capabilities to the present.

Apparently unaware that a copy of this document had fallen into Western hands, Soviet officials during the past five years have often made statements about the level and distribution of their production as a percentage of the corresponding 1940 figure. By making appropriate adjustments of the figures in the 1941 Soviet economic plan, American intelligence specialists have been able to apply the published percentages and learn the absolute magnitudes that Moscow sought to keep hidden.

This document, which was first captured by the Germans during World War II and then captured from them by Western troops, has until recently been kept hidden behind American security classification. It has now been declassified and may be utilized by schools and others concerned with the Soviet economy. Only a few photostated copies are as yet available, however. It provides thousands of key data regarding levels of Soviet industrial production, the geographic distribution of output agriculture, transportation, communications, public utilities, and other branches of the Soviet economy.

Some of the major conclusions attainable from the data contained in the 1941 economic plan are the following:

By 1941 the Soviet Union had gone a long way toward conversion to war production by cutting the output of civilian products very heavily. Thus the plan provided for production in 1941 of only 28,000 tractors and 140,000 motor vehicles. In 1936 it is known that the Soviet Union produced 116,000 tractors and in 1938 it turned out 211,000 motor vehicles.

Data shown in the first two tables

on Soviet industry in this document prove almost conclusively that the official Russian industrial production index in terms of 1926-27 prices has been grossly inflated. This opinion has been held by many Western students of Russia's economy, but never before has such clear evidence been available. This evidence takes the form of production data for different branches of Soviet industry, with related figures being given both in terms of 1926-27 prices and in terms of wholesome prices current in 1941.

Cost of production data for synthetic rubber shown in this plan provide the first concrete clue on the high cost to the Soviet Union of its effort to achieve industrial self-sufficiency. A metric ton of synthetic rubber cost 5,320 rubles to produce as against about 30 rubles for a ton of coal and 66 rubles 40 kopeks for a ton of cement.

Data in the plan indicate clearly the major importance for the Soviet economy of construction and production activity by forced labourers working under the direction of the secret police. The plan gives detailed figures on the actual quantities of construction and production set for economic organizations of the secret police in 1941.

The conversion to war production in 1941 was made possible in part by keeping down the volume of new housing construction. The 1941 goal for new housing was only 5,236,950 square meters of housing space, equivalent to less than a square foot a person in the urban population.

EXCESS PROFITS TAX BETTER THAN INCREASE IN DISTRIBUTED PROFITS TAX : Oscar Hobson

PROFITS are almost certain to engage the attention of Mr. Gaitskell when he opens his Budget.

What will or should Mr. Gaitskell do about them ? I am only sure of one thing which he should not do. He should do nothing—and he should go back on what his predecessor has done—to prevent industry from maintaining and expanding its real capital.

There is a radical difference, it seems to me, between our present situation and our situation in the late war. Then in our endeavour to come out alive we were driven to the point of being willing to dip deeply into our national capital. The present cold war is a struggle ultimately of production, of economic endurance. To start dissipating industrial capital now would be sheer madness.

Therefore, whatever Mr. Gaitskell does he must not tax that part of industry's profits which is needed to maintain and renew its plant equipment and stocks. Fortunately, he should in framing his Budget have the advantage of the report of the Tucker Committee set up in June, 1949, to inquire into method of computing profits for the purpose of charging them to income-tax and profits tax.

For the rest, if it is necessary to increase the taxation of profits as such (which I certainly do not admit, seeing that all distributed profits are taxed in the hands of the recipient according to his personal circumstances) then it is a choice between imposing some form of Excess Profits Tax and increasing the distributed profits tax from 30 to, say, 40 per cent.

Notwithstanding the example of America I would infinitely rather see Mr. Gaitskell adopt the latter than the former course.

From News Chronicle, January 4, 1951

Impact of Prejudice on Economic Judgement

by PROFESSOR WALTER EUCKEN

This extract from the late Professor Eucken's last published work represents the point of view of a searching and thought-provoking treatise.

THE everyday economic experience in which we all share may be regarded in two ways. It provides the initial impulse for asking significant questions, but at the same time puts a considerable obstacle in the way of our finding really serviceable answers.

(1) Because everybody takes some part in economic life everyone has an opinion about the economic questions directly affecting him. The baker is concerned with the prices of bread and flour, with his guild or association, and with the wages of his employees. The industrialist is interested in tariff policies, railway freights, the price policies and regulations of the cartels from which he buys, and the worker with rents, prices, and wages. It is not that everyone thinks out an independent opinon as to how prices and wages are formed. Most people only repeat the views they hear around them. " Few men think, but all want to have opinions" (Berkeley).

Men do not confine their opinions simply to what is in their immediate surroundings. They range further afield and pronounce on the larger relations of the whole economic process from the standpoint of their personal interests.

An industrialist, the price of whose raw materials is kept up by a cartel, but who does not sell his own products through one, will take a generally unfavourable view of cartels, unlike the industrialist who belongs to one. An official who benefits from a rise in pay is scarcely able to consider the effects on government expenditure as other than favourable. The artisan threatened by the competition of large-scale mechanised plants believes that the introduction of machinery is economically harmful and is ready to subscribe to any reasoning which appears to him to prove this.

It is not that the individual always weighs up correctly what is in his interest. For example, most retail traders at first welcomed the appearance of branded goods with fixed prices as adding to their security. Only later was it realised that branded goods and price maintenance were undermining the status of the independent retailer. Again, in 1922 and 1923 many German entrepreneurs demanded, supported, and approved an easy credit policy by the Reichsbank and took no account of the heavy damage inflation inflicted on their own positions. Everyone's opinions on the economic causes and effects of their actions are formed on the basis of their own actual or assumed interests.

From The Foundations of Economics (William Hodge & Co., Ltd., London, October 1950 21/-)

What is convenient to these interests seems at once proper, correct, and reasonable, and what runs counter to them seems in all seriousness unfair and unnatural, or unsuitable and absurd. Every day our intellect is fooled and corrupted by the trickery of our passions. Many men are genuine experts in their own economic environment, but they are unable to wigh up dispassionately the wider interrelationships. Everyone, even the director of a great modern business, sees things from the point of view of his own interests, and can survey only a small section of the whole huge process of the social economy.

(2) Along with the individual opinions of single people an effective part in everyday economic life and economic policy is played by the ideologies of groups. These arise wherever powerful economic bodies exist, and they tend much more than the multifarious opinions of individuals to be weapons deliberately created for the economic struggle.

Spurious Religious Values

Not all such ideologies are purely economic in character. Often religious, philosophical, or political ideas are used in economic ideologies. The religious and philosophical notion of world citizenship was used by free-trade interests, and nationlism by those interested in protective tariffs. The old German notion of the guild was used in support of the cartel. There are few religious or political notions which have not been made use of ideologically by economic interests, not only in the so-called capitalist age, but at all periods and places. In the struggle between merchants and hand-workers in the medieval towns during the thirteenth, fourteenth, and fifteenth centuries, the interested parties built their economic idologies out of the dominant religious and political ideas of the time. This has also happened in the economic conflicts of the twentieth century. The purpose of such ideologies is either to conceal the true motives for the claims which are being advanced or to give these claims added force. In England in the middle of the eighteenth century it was widely held that high prices for food and low wages were economically desirable. An economist, Foster, in attacking this view remarked: "This is a doctrine which greed eagerly seizes upon. Men believe nothing more easily than an untruth that brings them advantage."

Pressure groups gain significantly in power and influence if there are intellectuals at their disposal to work out their ideologies for them. The whole intellectual history of mankind is full of attempts to secure and support claims to power by means of ideologies. He who pays the piper calls the tune. How often theologians try, and have tried, to use the great historical force of religion in in the interest of the ruling class. Historians, too, consciously or not, serve the interest of groups in power or struggling for it. How much legal subtlety has been available throughout history to prove that the interests of pressure groups are in harmony with the law—positive or natural. Take for example, the writings of Peutinger, the legal adviser of Augsburg high finance at the beginning of the sixteenth century, which were so skilful and influential in the struggle over the legal treatment of monopolies. A history of monopolist ideology from that time down to our contemporary cartels would be as interesting as it is badly needed. It would be found how these ideologies fitted themselves into the intellectual and political spirit of the times by appealing to natural law and to the freedom of economic activity for the individual

(including the making of cartel agreements). Alternatively, with socialism in the ascendancy, it is urged that monopolies and cartel agreements prepare the way for socialisation. The argument always proves that the interests of the pressure groups harmonise with the common good. Such ideologies often have a significant effect, particularly on legal judgments and administrative practice.

Profound Humbug

Scientific theories, too, are sometimes used as ideological weapons, as, for example, the natural law theory which was used by the princes against the estates during the seventeenth and eighteenth centuries. Similarly, the economic theory of free trade became a weapon of vested interests in the nineteenth century. In the course of every serious depression the old long-discredited notion that too much of everything is being produced, in one country or in the world, is spread by interested writers in order to move opinion in favour of a planned restriction of production. The reverse may also happen in that an ideological weapon is accepted as part of economic science. The balance of payments theory was accepted by many economists as an explanation of the collapse of the mark in the years after 1919. It was not realised that the explanation of the falling value of the mark as the result of a passive balance of payments originated with business circles interested in cheap and ample credit, whose interests prejudiced them against the true explanation, that is inflation. A tendency to romantic, even mystical, speculation is often associated with the interests of pressure groups. Adam Mueller's enthusiastic reverence for the traditional economic order was taken and made to serve the interest of the influential landlords at the time of the Stein-Hardenberg reforms. Profundity is often a characteristic of the ideological weapon. To lay down a smoke-screen behind which the ideologies and activities of economic groups can develop is the service such writers render by their nebulous speculations.

Those looking more deeply into the struggles for power of economic groups—and economic life is full of such struggles—are apt to wax indignant at the way in which opinions and ideologies are shaped by economic interests. A distinction should be made between the opinions of economic individuals which may be of value in their own fields and those of group ideologies. Further, it would be more important, instead of growing indignant, to investigate calmly the play of interests in everyday economic life and think out a way of rising above these illusions and prejudices.

(3) This play of interests has been stressed not in any spirit of pessimism, but because it is of the greatest importance. We must now ask how it is possible in spite of all the "interested" opinions and ideologies in the world to attain to scientific knowledge of economic reality. Is it possible to get beyond everyday economic experience, or is the intellect always to be simply a tool of the will, at any rate in the field of economics? Can economics ever escape from the domain of interested opinions and ideologies, and if so, how? All genuine empirical sciences and scientific theories since the Greeks have seen the main task of science as that of rising to a scientific truth above the level of everyday debate. Is such a solution for our problem possible, and if so, how? Can there be a scientific economics free from the clash of interests?

It is not that what we learn from our everyday experience must be

wrong because of its subservience to our interests. It may be either right or wrong, and what has to be found is a strict criterion and a scientific method for deciding that. For example, it is often the view of the workers that increases in wages, by adding to the purchasing power of the people, stimulate demand and economic activity. The employers, looking at the rise in cost brought about by wage increases, expect smaller profits, dismissals of workers, and thus a deterioration of the economic situation. Who is right in any actual case, or how far is one or the other right ? That has to be answered scientifically. The popular idea that the truth must be found somewhere in the middle has no proper foundation. There is no reason why it should be just midway between the views of the trade unions and of the employers' associations. In economics the solutions to problems are not found as easily as that.

ANTI-INFLATIONARY POLICIES : 220 ECONOMISTS AGREE

In view of the limitations inherent in direct controls and the illusions and evils which seem inescapably to accompany their use, economists generally would assign to them only a secondary place in needed anti-inflationary policies. A noteworthy statement has been issued during the past month by a group of 220 economists representing 27 of the nation's colleges and universities. This statement, drafted by a group at Princeton University, puts anti-inflationary measures in their proper order and perspective. It advocates elimination or postponement of all government expenditures that are not urgent and essential It urges raising taxes to achieve and maintain a cash surplus. It recommends restricting credit, both specifically and generally, for purposes not essential to the defence program. It accepts the need for allocation programs and orders limiting consumption of scarce materials to essential uses. It points out that " stability of the general level of prices would be impossible in the face of general wage increases that substantially raise costs and private spendable incomes."

As to direct controls, it says no more than that " voluntary restraints by business and labor are an important ingredient of a successful anti-inflation program, and if business and labor cannot or will not exercise such restraint some mandatory government ceilings may be necessary".

The purpose and effect of this statement is to say that fiscal and credit measures are the only adequate primary defense against inflation, and that in their absence "a prolonged decline in the purchasing power of the dollar would undermine the very foundations of our society (or) an ever-spreading system of direct controls could jeopardise our system of free enterprise and free collective bargaining".

From Monthly Letter, National City Bank of New York, January 1951

Tibet's Mineral Wealth

Uranium? . . . Gold? . . . Coal?

DEPOSITS of gold, iron-ore, salt and borax have been known and exploited in a primitive way over a considerable period in Tibet and borax is one of her staple exports.

Recent sensational reports to the effect that Tibet possesses large deposits of good coal, of various ores, including uranium-ore, as well as petroleum deposits may or may not be true, though it cannot by any means be ruled out that the opening up of the country to economic development would eventually lead to the discovery of commercially important mineral deposits.

According to a number of reports by various travellers, there appears to be an almost universal distribution of gold throughout Tibet. In West Tibet, diggings of the most crude description can be found almost anywhere. If these occurrences could be exploited Tibet might enter the list of the world's important gold-producing countries.

Russian travellers of the Czarist period had an eye for Tibet's mineral wealth; Prjevalsky, whose repeated explorations of the northern part of the country made him one of the authorities, declared that Tibet would become a "Second California".

A British traveller observed that gold-washing was one of the commonest occupations throughout the country. This enthusiasm of European travellers is corroborated by Chinese accounts. and much gold mined in Tibet was for a period despatched regularly to Peking under guard.

As regards particular occurrences of gold deposits in Tibet, reference may be made to mines at Rudok and Thok-jalung in West Tibet which have been worked for many centuries, to an auriferous tract south-east of the Yamdok Lake, and to the rich deposits at Lit'ang.

Iron-ore is found in East Tibet in the form of pyrites and is smelted locally in a crude fashion. There are also copper and silver workings and occurrences of mercury and of precious stones.

Borax is found on the banks of several lakes and streams, chiefly in West Tibet. Europe once obtained a considerable part of its borax supplies from Tibet, exports totalling 20,000 maunds per annum. Large salt deposits are also found in West Tibet.

WESTMINSTER BANK LIMITED

ANNUAL GENERAL MEETING

TO BE HELD ON

14th FEBRUARY, 1951

The following is a summary of the Statement by the Chairman, the Right Honourable Lord Aldenham, which was circulated with the Report and Accounts for the year ended 31st December, 1951

Lord Aldenham, in recounting the year's changes in the Directorate, paid a specially warm tribute to the Hon. Rupert E. Beckett who during 1950 resigned from the Chairmanship of the Bank, which he had held with such distinction for twenty years. Mr. Beckett still remains as a Director.

The Balance Sheet shows that Current, Deposit and Other Accounts, at £815 million, were £7 million higher than at the end of 1949. This increase was in some degree associated with the strong position of sterling and the consequent influx of money from abroad.

Advances to Customers and Other Accounts increased on the year by £18 million to £208 million. This upward trend was well spread and was a natural accompaniment of increased trade and industrial production.

The course of bank deposits and advances in 1950, taken in conjunction with increased production suggests that there was no great addition to inflationary pressure; but the outlook for 1951 is by no means so favourable in this respect.

The Accounts show a profit for the year of £1,471,031, an increase of £10,474 compared with 1949. Higher earnings from advances were partially offset by a reduction of income from investments. All expenses continued to rise, especially Staff costs, which are of course by far the largest item. The profit has enabled the declaration of the same dividends as for last year, and again the placing of £600,000 to Reserves for Contingencies.

In the wider field of national affairs, the economic progress of 1950 must now be viewed in the light of the outbreak of war in Korea, which has been taken by all the freedom-loving nations as an indication that the cold war in Europe may at any time become a real war. But our defence measures are a long way in arrears; making up for lost time must impose a heavy burden on this country and greatly add to our economic difficulties.

The other outstanding development of 1950 was the striking increase in the gold and dollar reserve of the sterling area, a change of fortune which led to the mutual agreement between the governments of the United States and the United Kingdom that Marshall Aid to Britain should be suspended from the 1st January, 1951. It is difficult to exaggerate the success of the Marshall Plan, an act of international co-operation surely without parallel in time of peace.

The appearance of a surplus of dollars in the balance of payments of the sterling area and the consequent suspension of Marshall Aid to Britain do not mean that, quite apart from the strain of defence preparations, the economic recovery of this country is anywhere near complete. An examination of the causes of the improvement makes this clear. The devaluation of the pound in September 1949 coincided, rougly speaking, with an upward turn in the level of business activity in the United States. A second strong influence was the heavy

cut in dollar imports which the United Kingdom and the countries of the overseas sterling area were forced to make at the time of devaluation. At the end of June 1950 a third factor was added—the outbreak of war in Korea. A new stimulus was given to the demand for raw materials, and the third quarter of the year ended with the reserve standing at rather more than double the figure at the time of devaluation, the sterling area having had a surplus of $400 million in the first nine months of 1950 apart from Marshall Aid received. This fact encouraged the idea abroad that the pound might be re-valued. The result was a sharp rise in the demand for sterling exchange for forward covering of purchases of sterling-area goods—an exact reversal of the conditions which prevailed immediately before devaluation.

At the end of 1950, the gold and dollar reserve of the sterling area had risen to $3,300 million, compared with $1,688 million at the end of 1949. In the last quarter of the year there was an increase of $544 million, consisting of a surplus of $398 million and Marshall Aid amounting to $146 million. The Treasury announcement confirmed that the forward purchasing of sterling mentioned above accounted for a large part of the surplus in the last quarter—probably over one-third.

Figures to show how the United Kingdom (as distinct from the sterling area) fared in 1950 in the effort to balance her dollar trade are avilable for the first six months only. The overall balance of payments of the United Kingdom showed a surplus of £52 million for the first half of 1950, compared with a deficit of £38 million for the whole of 1949 ; and it seems probable that in the second half of 1950 the growth of exports and the increase in invisible earnings produced even better results than in the first half in respect of both our dollar balance and our overall balance.

While therefore genuine progress was made in 1950, much of the gain both in the sterling area as a whole and in our own position was attributable to exceptional factors, the removal of which would leave us once again short of dollars. We need a much more substantial dollar reserve before any revaluation of the pound should be considered.

The real test of our ability to earn our living in a competitive world has been postponed, not averted, by the present emergency, which has once again created "sellers" markets."

Internal conditions in this country during 1950 were more favourable than had been expected. The rise in the cost of imports due to devaluation was slower in reaching retail prices than forecasts had suggested. A large part of our increase in exports was provided by higher production ; and we were thereby saved the feared reduction in the volume of consumer goods available at home. Personal incomes were kept fairly stable in accordance with the policy courageously initiated by Sir Stafford Cripps.

There must be a wider understanding that it is American charity that has enabled us for some years to live, as a nation, beyond our means. The national standard of living in future must be set by reference to the production index, rather than to the cost-of living index. It will in fact be so set, whether we wish it or not.

Industrial production did increase notably during 1950—at a much greater rate than was anticipated in the Government's Economic Survey ; but, by progress on both sides of industry, much more still can be achieved in this direction. Shortages of raw materials will check production in some industries in 1951 ; but recent reports from our branches all over the country refer to the under-manning of many industries. This under-manning and the needs of the Services should absorb any labour displaced by lack of raw materials. But the difficulty of persuading men displaced from one industry to take work in another is formidable, as is exemplified by the grave lack of manpower in the coal-mining industry.

Continued on inside back cover

MIDLAND BANK LIMITED

Extracts from Statement by the Chairman The Most Hon. The Marquess of Linlithgow, K.G., K.T.

The 115th Annual General Meeting of Midland Bank Limited will be held on February 16th in London.

The following are extracts from the circulated statement of the Chairman, The Most Hon. The Marquess of Linlithgow, K.G., K.T., which begins by recording the marked progress made towards that international equilibrium for which Britain, in company with other countries damaged and impoverished by war, has been struggling through more than five strenuous, exacting years. The statement continues: It would be an endless task to try to allocate the credit for this achievment. One thing that can be said indisputably, however, is of high significance in any consideration of the prospects for consolidating and extending the gains already won. It is that the speed and extent of the progress recorded thus far must be ascribed very largely to the immense contribution made, directly or indirectly, by the United States of America. It has indeed been a political miracle of modern times that the United States, reversing her long-standing policy, has accepted with astonishing promptitude, and expressed in munificent and decisive action, the responsibilities of leadership in world affairs. After enumerating some of the many ways in which the United States has contributed to international recovery, Lord Linlithgow remarks: It is only when one comes to recall these facts systematically that one begins to appreciate, in general terms, the magnitude and quality of the contribution—material, intellectual and moral—of the United States to world recovery and improvement and to realize how dark and devoid of hope the situation might have been in the absence of this unexampled aid and inspiration.

It can hardly be denied that to expect the indefinite continuance of direct material support from the United States, of the kind and on the scale recorded in the past five years, would be to cultivate an enervating and chronically unhealthy habit of mind. Equally, however, to presume the sudden cessation of American aid would be to envisage the risk of collapse of the painfully rebuilt structure of economic and financial relations. Between these two extremes, the prospects at this moment are beyond close assessment.

Beyond the stage of "emergency" aid, the international economy will continue to be powerfully influenced by conditions within the United States. It may thus become a question of cardinal importance to the rest of the world whether business activity in the United States is likely to be steadier than in times past, or whether it will prove to be still subject to violent fluctuations, the effects of which will be speedily and disturbingly transmitted to other countries. I do not think we need nurture anxiety on this account, for, despite some evidence of continued surface effervescence, there is good ground for believing that the economy of the United States has greater inherent steadiness than in times past.

IMPLICATIONS FOR BRITISH POLICY

The disproportionate influence exercised by the United States on world affairs, in part by reason of the "natural" course of economic evolution and in part as a consequence of the damage and disruption wrought by war, is to some extent inevitable ; but it is also excessive when judged by the long-term interest of the world as a whole. For reasons of both short- and long-term relevance, therefore, and in the widest of world interests, our own policy should be framed with a view to constantly strengthening the economic foundtions of the British Commonwealth.

I therefore ask myself, looking at the situation as a banker, what should be the guiding lines, in the years immediately ahead, of action in the economic and financial sphere, and there are three matters on which it seems to me timely to make some comment.

My first point arises from the necessity, everywhere deplored but recognized as inescapable, of diverting to concerted defence measures some of the economic resources actually or potentially at our command. Help may be made available from the United States in support of the common effort and some reliance may be placed on the growing productivity of British industry. For the rest—and the rest need not turn out to be so onerous as to give rise to serious hardship—it is essential that the diversion of resources should be at the expense of current consumption. It would be a culpable example of short-sighted expediency to divert resources from the improvement of economic capital at home or the development of productive capacity in overseas parts of the Commonwealth, more particularly in Africa and south and south-east Asia.

Secondly, no effort should be abated in maintaining at the highest attainable level the dollar earnings of the sterling area, and of Britain in particular as the central unit of that association. To fulfil this year's commitments under the American and Canadian Government loans, while at the same time adding to monetary reserves, meeting more of the import requirements of partners in the sterling area and supplying capital for development of resources overseas will call for the greatest and most sustained export effort that can be put forth.

Assuming continued success along these lines, so that equilibrium on the balance of payments is firmly established and the monetary reserves of the sterling area are powerfully reinforced, the question will arise whether the time has not come for moving gradually towards fuller convertibility and freer use of the pound sterling. There can be no doubt that progress along this line would constitute a far more desirable application of regained strength than a deliberate revaluation of the pound in terms of the dollar, which might easily have the result of dissipating some of the gains already achieved.

The notable increase in the volume of industrial output, apparent a year ago, has continued, thanks largely to the extensive improvement of capital equipment. If, however, any complacency should be felt on the basis of past, very solid accomplishment, it can be speedily dispelled by reflecting upon the fuel shortage and the all-too-frequent power cuts which disturb the smooth running of industry and cause endless inconvenience.

Further, one cannot ignore the accumulating evidence of stringency orlack of balance in the financing of industry, associated with the progressive shortage of equity capital. The complex problem of industrial financing, however is but one manifestation of a single, cardinal factor in the economic situation, namely the continuance of inflationary pressure. Herein lies the prime cause of anxiety in any view of the immediate future.

MONETARY CONDITIONS

The Statement discusses the principal factors contributing to the marked growth in Bank deposits during the latter part of 1950 and

Continued on inside back cover

Multiple Exchange Rates

By E. M. Berstein

The author of this item was formerly Professor of Economics in the Univesrity of North Carolina, and Assistant Secretary in the U.S. Treasury

MUPTIPLE exchange rates are essentially a system of taxes and subsidies. Like all taxes and subsidies, they affect the distribution of income and the pattern of production and consumption. Their consequences, therefore, are of tremendous importance to a country's economy. They affect the national economy through their impact on the prices of imports and exports. For this reason, they are of importance also to other countries.

As far as multiple exchange rates constitute a system of taxes and subsidies, affecting home distribution of income, they may or may not be economically desirable. In general, they are based on the assumption that some (or all) exports and some (or all) imports are a desirable source of taxation.

In countries with greater facility for administering taxes, it would hardly be thought probable that, even if some (or all) producers of export goods and some (or all) consumers of import goods could reasonably be expected to pay more taxes, the most satisfactory method of increasing government revenues would be through special taxation of these groups.

If a tax on producers is desirable, the economically most effective method is to tax the incomes of producers, whether of export goods or home goods ; similarly, the most effective tax on consumers would be a tax on either their incomes or their expenditures.

The case for multiple rates as a tax device, however, does not rest on its economic merits, It rests rather on the fact that it is easy to impose, because it can be presented as an exchange device rather than as a taxing device ; that it is easy to enforce being concentrated on payments and receipts through international trade; and that it can be defended as a necessary means of strengthening a country's payments.. These are not good reasons for preferring one type of taxation to another. They may, however, have the merit, in countries with budgetary difficulties, of being better than no additional taxes.

The economic case for multiple rates as a subsidy on consumption is also weak. The distribution of real income through the price system even when modified by taxation, may not always be equitable, and some further modification through subsidies on consumption may be desirable. But it is difficult to believe that the most constructive method of providing such subsidies is through bargain rates of exchange for imports. It would seem to be preferable to select consumer goods of great importance to the well-being of the poor, whose supply (from either home or import sources) could then be expanded by the most economic means available.

Subsidies on exports are subject to generally similar objections. They

From Staff Papers, International Monetary Fund, Washington, September 1950

may indeed encourage production of goods for export that might not otherwise be produced. It does not, however, follow that they are more desirable than subsidies to encourage the domestic production of goods that would otherwise be imported or of goods that would be neither exported nor imported.

Taxes and subsidies in the form of multiple rates are likely to have undesirable effects on the patterns of production and of consumption. The classification of thousands of import and export goods in a few broad categories to which markedly different exchange rates are applied must necessarily be highly arbitrary, because it is assumed, on the one hand, that "essentiality" is an adequate test of the rate of exchange to be applied to import goods and, on the other, that the supply of most export goods is inelastic.

All this, it may be argued, merely shows that countries are not likely to get from multiple rates either the best pattern of production and consumption or the best system of taxation. But this is equally true of many other economic measures. Provided a country is itself satisfied that the immediate results of multiple rates are desirable, why should the Fund be concerned that the longer run effects are adverse ?

The Fund was given the positive duty of passing on multiple rates, not only because of their effects on the member using them, but even more because of their possible effects on other members. As a system of taxes and subsidies on imports and exports, multiple rates affect the trade of other countries.

It is true that a similar system of taxes and subsidies could be devised without using multiple rates ; but many countries have defended their position with respect to such taxes and subsidies through bilateral trade agreements. They have entered into such agreements on the assumption that the indirect method of doing this by way of exchange rates has brought under international control through the Fund Agreement. They are, for this reason, entitled to the assurance that the Fund will not approve extensions of multiple rates except where more practicable methods of dealing with the payments problem cannot be put into effect.

From the economic point of view a single rate for both exports and imports, that will balance international payments without restrictions, is the preferred means of correcting a country's payments position.

But suppose a country is unwilling to apply an appropriate rate, adequate to discourage imports, to all of its imports. As a practical matter, *it may be better* to apply the appropriate rate to 50 per cent. or 60 per cent. of its imports than to continue an inappropriate rate for all imports.

And if a country is unwilling to apply an appropriate rate to all of its exports, *it may be better* to apply the appropriate rate to a portion of its exports. In such a case, it must be clearly demonstrated that the harm done to other countries by preferential import or export rates is negligible.

A large spread between a single export and a single import rate is probably the form of multiple rate which is least harmful to other countries. The discriminatory features imposed on trade by multiple exchange rates are then kept to a minimum, and the difference between the effective rates and an appropriate parity is unlikely to be very great. And because most countries are more specialized with respect to their exports than with respect to their imports, differential exchange rates are likely to be more harmful to other countries when applied to exports than when applied to imports.

Hard Way of Transgressors

There is no profit in tax-evasion, according to this entertaining study of what happens when the illicit savings are spent.

WHO would gain if a man with £2000 a year cheated the revenue authorities of tax on the last £500 of his income and squandered it on riotous living?

Let us assume that he spent £100 on cigarettes. The tax on a 3s. 6d. packet of 20 is about 2s. 9½d. So Customs and Excise would reap £79. 15s. 5d. in duty.

He might spend another £100 on wines and spirits. If he bought 20 bottles of gin, 20 bottles of rum, 10 bottles of whisky, 10 bottles of heavy wine and a few bottles of light wine, the duty would come to another £66. 18s. 6d.

No doubt his wardrobe would need replenishment. A man who is prepared to defraud the Inland Revenue would not be content with utility suits. £100 spent on clothing would produce a further £20 for the Exchequer.

Naturally he will wish to celebrate his triumph over the tax authorities at various entertainments. If he sticks to live entertainment he will only pay 2s. 10d. tax on a 14s. stall at the theatre. But once he indulges his taste for the cinema his tax liability mounts sharply. On every 9s. 1d. ticket her will pay 4s. 2d. tax. If he divided his money evenly between these two forms of entertainment, then the tax would be about £30.

Finally this guilty man will no doubt give his wife a diamond brooch with the last £100. Purchase tax is charged at 100 per cent. of the wholesale price, so another £40 would find its way to Mr. Gaitskell. In all, tax paid in squandering £500 would thus amount to £236. 13s. 11d.

And how much would this criminal have given the Exchequer if he had paid tax on this £500 and saved what was left? £225 at the ordinary rate of tax.

So the Exchequer actually loses by the honesty of the taxpayer. For the money spent on wine, women and song—or what is left of it after tax—is taxed again when the wine merchants, the jewellers, the theatrical producers and the cinema owners make their returns to the Exchequer.

To such a ridiculous height has ordinary taxation now been raised that it is possible for tax evasion to be legally wrong, morally wrong, but financially good for the Exchequer!

From Evening Standard, London, December 12, 1950

FIBRES—NATURAL AND SYNTHETIC

Paul Farago writes on "Synthetic and Natural Fibres" in the *Australian Quarterly*, Melbourne, for September, 1950. He concerns himself especially with substitutes for wool.

Synthetic fibres can be grouped under five heads: Vinyl Resin Fibres; Glass Fibres; Rayon Fibres; Nylon Fibres; Casein and Protein Fibres.

In the Nylon group is included the important new fibre "Orlon" which falls between Nylon and Rayon. It can be spun with wool or used instead of wool.

In the Protein group there are two new fibres: "Ardil" made from peanuts, for which the writer predicts a considerable future; and "Zein", which is not yet fully developed.

Volume of Bank Deposits

II.—How the System Works

The first part of this article, published last month, explained the principles of control of the volume of Bank Deposits.

So much for the factors of fluctuation; now for mechanics. It is worth while to follow through, by way of illustration, two examples which are particularly relevant to recent trends.

First, let us suppose that over a given period the Government is neutral in its demands upon the banking system, while the demands of the private sector are increasing rapidly. For convenience, let it be imagined that the whole of this increase of private demand is concentrated upon one bank. That bank will then find that customers, by arrangement, are drawing cheques upon it although they have no credit balances with the bank to meet them, or that some customers are doing so more extensively than other customers are paying cheques in in reduction of outstanding loans and overdrafts.

In such circumstances the bank's advances will be growing. The cheques so drawn on the bank will be paid in principally to other banks, adding to their claims, to be settled through the clearing system, on the one bank. The deposits of the Public with the other banks will grow correspondingly, and the one bank will settle the claims against it by paying over to the other banks an equal amount of its own balance with the central bank, the Bank of England. Adding all these movements together, the momentary result is this: that total bank advances will have risen, and total bank deposits will have risen by an equal amount, while the total amount of bank cash reserves is unaltered.

The one bank, however, cannot let matters rest where they are. Its deposit liabilities are unchanged in amount, but its cash reserve, of which its balance at the Bank of England forms a part (the other part being currency in its tills and vaults), has declined. It follows that the one bank must take steps to reinforce its cash reserves. Probably it will allow its holding of Treasury bills to run down. It then receives payment for those bills from the Exchequer in the form of a claim on the Bank of England, which will add to its own balance, at the expense of the Government's, at the central bank.

If this is not enough to restore its cash reserves to the required level, it may decide that it must cut down the amount of the loans it has made to discount houses which enable them to fulfil their regular function of holding or trading in bills. Discount houses will repay the bank by drawing on their balances with the Bank of England. Hence the same result is achieved—a reinforcement of the bank's cash reserves to make good the loss arising from its extension of new credit to non-Governmental customers.

This, however, is not the end of the sequence. The Government, maintains only a working balance with the

Bank of England, and, since its needs of credit are unchanged, it will have to find some new source of borrowing to the extent that the one bank has reduced its holding of Treasury bills. Discount houses too will have to reduce their holdings of bills. In the circumstances assumed some means will have to be found whereby it will become possible for the banking system as a whole to take up as many bills as it held before the process began. The "Stringency" in the money market will have to be relieved.

Bank Buys Bills

What ordinarily happens is that the Bank of England buys some bills from the discount houses, paying for them, in effect, by writing in its books an addition to the working balances they hold at the Bank. The discount houses use these added balances to pay for more bills to replenish their holdings, and by round-about transfers these added balances at the Bank of England quickly come to the credit of the banks.

The banks, finding their cash reserves thus more than fully restored, will in turn be able to build up their bill holdings once again to the former level and to lend as much as before to the money market. The circle is now complete, and the net effect of the entire process is that bank deposits have expanded by rather more than the growth of bank advances, the difference being covered by additional cash reserves required to maintain the regular reserve ratio of eight per cent. or so.

For our second example, let us suppose that, while the private sector is neutral in its demands on the banks for credit, the Governmental demand is diminishing. It will be understood that the Government's working balance with the Bank of England is being continuously fed by transfers from the balances of the commercial banks with the Bank of England in settlement of cheques drawn by customers of the banks in payment of taxes, or for goods bought from Government Departments, or indirectly for foreign currencies bought from the Exchange Equalization Account, and so on; and that the Government's balance is being continuously run down by transfers to balances of the banks with the Bank of England as customers pay in to them for collection the equivalent of cheques received from the Government in the course of an endless variety of transactions.

Under our suposition the inflow to the Government's account at the Bank of England is steadily exceeding the outflow, and the Government will ordinarily apply the surplus balance at the Bank of England to the repayment of some of its short-term borrowing from the banking system. It may, for instance, ask the banks to replace less than the full amount of the Treasury deposit receipts that happen to be maturing at the time; or it may offer to the bill market at the weekly tender, fewer Treasury bills than are maturing in that particular week. The result is that its excess balance with the Bank of England is transferred to the banks, thus adding to their cash reserves.

This is only the first effect. The banks' cash reserves will now exceed the regular ratio of eight per cent. or so to deposits; and, since they carry no interest, the banks will try to put them into some earning asset or to lend them to the money market (our assumption is that there is no demand from the private sector for increased credit under the heading of "advances"). Since the total volume of bills available is diminished, they may be unable to add to their holding, while for the same resaon the discount houses will not take additional loans from the banks. The banks may be

unwilling to add to their holdings of investments. In these circumstances the banks will be unable to "use" their excess reserves.

The Bank of England, observing that the banks' cash ratios are above the regular level, will then act to remove the surplus ; or it may do so contemporaneously with the Government repayments of short-term debt, in pursuance of a deliberate intention to avoid any increase in bank deposits. What it will do, most probably, is to reduce to some extent its own holdings of Treasury bills ; and this step, by the reverse of the process described in our first example, will have the effect of reducing the Bank of England's total deposit liabilities, and in particular the balances maintained with it by the joint stock banks.

End of Process

The result of the entire process will be that the deposits of the public with the commercial banks will have diminished by the net transfers from customers' balances with them to the credit of the Government's account with the Bank of England ; that the banks' holdings of short-term Government debt will have diminished, through Government repayments ; and that their cash reserve will have diminished, through Government repayments ; and that their cash reserves will have been slightly but deliberately reduced by the action of the Bank of England, to preserve the eight per cent. ratio. In this way a reduction of total Government demands on the banking system tends towards a roughly equivalent reduction in the total deposits of the public with the commercial banks ; and again the reverse is equally true.

We can now lay down the mechanical principles of the system, and point the differences from former arrangements. The processes we have described lead to this conclusion : that the Bank of England nowadays provides as much cash reserves for the commercial banks as is needed to sustain, on the basis of the eight per cent. cash ratio, the volume of bank deposits as determined primarily by the net out-turn of fluctuations in Governmental and private requirements of bank credit.

It used to be true that the volume of bank deposits was determined by the volume of bank cash, which the Bank of England settled by its own independent judgment of needs ; and further, that abundance of bank lending power or general financial stringency resulted from the operations the Bank of England undertook in respect of bank cash in fulfilment of its policy for the time being. Now the position is reversed, in the sense that, while the volume of bank cash is still determined by action on the part of the Bank of England, its action is shaped in response to factors which have already expressed themwelves in the volume of the bank deposits.

What has happened is that the instruments used by the authorities in regulating monetary conditions have changed. Responsibility for the total of bank deposits rests with the Government, through its own operations and directions ; though it must be repeated that Government policy in this respect can hardly be adjusted with sufficient promptitude and appropriateness to offset the effect of extraneous factors like a sudden change in the balance of payments or in the eadiness of the public to hold or take up Government securities.

Monetary policy is thus no longer a primary factor in the financial and economic situation ; it has become subsidiary to financial, including budgetary, policy in the broad sense, and to the general scheme of economic direction and control which the Government thinks suitable to the chang-

ing circumstances of the time.

With the qualitative regulation of bank lending to non-Governmental customers of the banks, and with a considerable (but by no means complete) measure of control over the volume of Governmental borrowing from the banks, the total volume of bank deposits is in the end determined, not by anything that the banks may of their own volition decide to do, but by official economic policy and plans.

And these plans are far wider in their scope than the operations encompassed in the term "monetary policy", formulated as it is in the Treasury and carried out partly through the Exchequer and related Departments and partly through the Bank of England as the centre of the mechanical arrangements comprising the banking system.

New Books Reviewed

THE POST-WAR FINANCIAL PROBLEM

by F. W. Paish, Macmillan & Co., Ltd., London, 15/-

This book presents articles, written over a period of years by a single author, the first of which provides the title for the book. The author's explanation of the reason for gathering the items together is in the form of a story of two children who, asked what they talked about on their walks, replied, "We looks, and we talks about what we sees". On which we comment that no defence is needed for presenting in permanent form the talks of one who talks so well about significant things that he sees with a penetrating eye. One of the essays—Planning and the Price System—was presented in a summarised form in the first number of Economic Digest, and extracts from another—The Economics of Rent Restriction—were published in a recent number of Economic Digest. It would, unfortunately, be opportune now to print extracts from another of the essays, although it was written in 1941—Economic Incentive in War-time. Other titles, in addition to those mentioned, are Cheap Money Policy, Savings and Investment, Banking Policy and the Balance of International Payments, Forecasting Foreign Trade, Causes of Changes in Gold Supply, Twenty Years of the Floating Debt, British Floating Debt Policy, Capital Value and Income.

ECONOMIC POLICY FOR THE THINKING MAN

by C. Bresciani-Turroni, William Hodge & Co., Ltd., London, 21/-

The author of this book is President of the Bank of Rome and an executive director of the International Bank for Reconstruction and Development. It has been translated into English from a revised German edition of the original work first published in Italy. Professor Luigi Einaudi, in an introduction, praises the author's work and congratulates him justly on writing a book which professional economists must take seriously although it does not make too many demands on the layman.

The first chapter, "State Intervention and Economic Science" will perhaps be of most interest to the general reader.

INTERNATIONAL ECONOMICS

by Stephen Enke and Virgil Salera, Dennis Dobson Ltd., London, 30/-

This is a text-book. Professor Enke is of the University of California, and Professor Salera of Miami University, and they have had in mind primarily the needs of American students. One of the difficulties in the path of students of Economics today is that they are having to manage with many pre-war text-books which have a prewar context even when added chapters in new editions strive to bring the matter up to date. This book has the advantage that it was conceived as well as brought to birth in the post war era. Its scope—foreign trade and finance in terms of the practices and theories of today—is wide. Its four parts are assigned to World Economy ; International Economic Analysis ; Commercial Policy ; and monetary and Financial Policy. Appendices cover Commodity Reserve Money and excerpts from Articles of Agreement of International Monetary Fund. Each of the thirty-five chapters has a useful summary and a bibliography. The result is a good, workmanlike text-book, most useful to English students as a supplementary study.

OXFORD STUDIES IN THE PRICE MECHANISM

Edited by T. Wilson and P.W.S. Andrews, Geoffrey Cumberledge (Oxford University Press), 21/-

At the risk of being tedious it is necessary to set down the contents of this important volume, as the simplest way of indicating its scope and the imposing weight of its authority. Chapter I—The Rate of Interest : (i) The Rate of Interest as a Weapon of Economy Policy, by R. S. Sayers ; (ii) The Significance of the Rate of Interest by H. D. Henderson ; (iii) Summary of Replies to Questions on Effects of Interest Rates by J. E. Meade and P. W. S. Andrews (iv) Interest, Prices, and the Demand Schedule for Idle Money by A. J. Brown; (v) A Further Inquiry into the Effects of Rates of Interest by P. W. S. Andrews; (vi) Business Men and the Terms of Borrowing by R. S. Sayers. Chapter II —The Rate of Exchange : (i) Trade Balances and Exchange Stability by A. J. Brown ; (ii) The Fundamental Elasticities in International Trade by A. J. Brown. Chapter III—Price Theory and Business Behaviour by R. L. Hall and C. J. Hitch. Chapter IV—Industrial Analysis in Economics by P. W. S. Andrews. Chapter V—Agriculture and the Price Mechanism by B. D. Giles. Chapter VI—The Response of Labour to Economic Incentives : (i) The Results of Empirical Studies 1936-9 by H. W. Robinson ; (ii) The Experience and Lessons of the Past Ten Years by H. W. Robinson.

A few of these items have been published in Oxford Economic Papers, and it will be seen that the grouping of the papers into a book is justified on the ground that all the essays are concerned with aspects of the price-system, without however any attempt at being comprehensive.

INDEX TO VOLUME III

An index for volume III (1950) will be included in the next number of Economic Digest

No Short Cut to Coal Prosperity

by **Duncan Burn**

To the many plans for the future of the Coal industry in Britain, the National Coal Board has now added its own fifteen-years "Plan for Coal"

It should be possible by good management and prudence to avoid crises like the present, and the consequent reduction of exports and emergency import of coal. But we cannot overcome our difficulties over coal quickly or by any dramatic stroke of policy. The easy way out would be to attract more workers and to persuade the miners to work harder. But the chances of success here are very slight indeed. It may be hoped that by better personnel management, more skilful and sensitive relations within the pit organization, based upon experience in other industries and using their methods when they are appropriate and drawing upon them for staff, a better tradition of regularity and greater stability may be established. But this will take time. Meantime, it would be wrong to assume that the present wage differential in favour of the miners is not sufficiently high. Their earnings have trebled since 1938 while average earnings in manufacturing industries, slightly higher initially, have little more than doubled. The average adult miner, above and below ground, earned 179s. a week in the Summer of 1950, compared with 146s. for adult male workers in manufacturing industry. This is an impressive difference. Unfortunately the miner cannot take full advantage of it. His chances of doing so should be increased. Housing conditions, for example, are poor, and only improving slowly—there seems to be less priority for miners' housing here than in France, where the nationalized mines build and provide houses. Since the miner cannot make the most of his high wages, he is probably disinclined to earn the maximum ; hence higher wage-rates might well lessen his output, and the advantage of his high earnings is not fully evident to people in other walks of life who might otherwise be attracted to the industry. But while the atractiveness of the high earnings is thus imparied, it is none the less a stimulus for wage claims in other industries, and further increases should for this reason too be deprecated.

We still do not know exactly why the heavy drift away from the mines continues. It was larger in 1950 (when the net loss was 22,400 in the first 10 months) than in 1949. But the large numbers who go within a year or so of joining the industry, or who leave while still young, probably find they do not like the industry. They will not be kept by slightly higher wages or by supplementary pension schemes. Some of the post-war propaganda has created a misleading illusion, as though coal-mining was becoming engineering, and a clean job, overnight, and as though promotion would come quickly. No doubt there have been many

From "The National Coal Board", Lloyds Bank Review, London, January, 1951

disappointments. Until comparatively recently, moreover, little seems to have been done to dissuade people from leaving ; a little over a year ago the drift was treated almost as an advantage—the undesirables were going. In the present situation the employment of Italian miners, trained in Belgium, would obviously be valuable, provided they can be assimilated successfully both in the mines and in the mining villages.

The broad conclusion seems to be that, while the introduction of Italian labour may be a useful palliative, the labour supply will only be stabilized slowly, at a lower level, by more skilful methods of recruitment and personnel management. But difficult as the position is it is not catastrophic, the tactical problems seem more serious than the long-term risks. The best hope is that it will prove possible to counteract the effects of the drift by raising O.M.S. faster and by using coal more efficiently. As we have seen, there is good reason to believe that O.M.S. can be more rapidly increased by the introduction of continuous mining. In addition, it become of increasing importance in the near future to develop most in the areas where labour is most productively used—and to do this more than the *Plan for Coal* proposes. All the experts agree there is great scope for saving coal by using it more efficiently —both at home and in factories. It may be possible at least to stabilize demand for coal without preventing industrial expansion. What steps—economic and technical—should be taken to ensure that savings are made when the investment they require is justified, is too complex a subject to deal with shortly. But at least there should not be an irrational financial discouragement of such saving, as there is at present. In the third quarter of 1950 almost half the coal mined came from divisions or areas whose average costs before charging interest were not covered by average prices. The Board has declared its intention of making the prices of particular coals broadly cover their costs: but it has not pushed the policy with the fullest vigour. If the short-term risks are in these ways made less acute the atmosphere will become more favourable for dealing with the long-term needs of efficiency, and the further reorganization, the creation possibly, of a many-firm instead of a one-firm structure, which may be required.

OUTPUT OF EUROPE'S MINERS
(*October* 1950)

	Output as per cent. of 1937	Number of Miners per cent. of 1937	Output per Man-Shift		
			Tons	Per cent. of 1937	Per cent. of 1946
U.K.	90	86	1.23	104	118
W. Germany	83	115	1.06	67	123
France	120	110	0.81	98	135
Netherlands	88	130	1.42	80	151
Belgium	97	108	0.70	90	117
Poland	124†	145*	1.32*	76*	123*

†September, 1950 *Figures refer to end of 1949

Increased Productivity not a Panacea

by L. H. C. TIPPETT

THE word " Productivity " has been used with increasing emphasis and frequency in discussions concerning British industry. We are reminded almost every day how important it is: we are often told that the productivity of British industry could be greatly increased: we are exhorted to increase productivity: it is sometimes suggested that " increased productivity " is the simple straightforward panacea for all our industrial difficulties.

Technically, we know how to increase the productivity of British industry by 50 or even 100 per cent., or more. But such increases require purposeful and coherent action by very many people in very many places and are likely to be accompanied by profound changes in our industrial society. The motivating forces lie deep in our individual and social being; they can be released only gradually, and when released they can be directed and applied only slowly. Most of the organised steps we can take as a country are essentially long term; short-term measures have little effect. Long-term measures are therefore as urgent as the need for increasing productivity.

How far we, as a people, wish to and should go on substituting a restless " go-getting " atmosphere in industry for one of a moderate easy-going efficiency is a question of ultimate values on which we must decide, knowing that bound up in the choice is the physical standard of living we shall enjoy. It is evident that we wish to improve that standard even while devoting considerable resources to rearmament; and doubtless by a mixture of all the methods we shall progress in industrial productivity and efficiency, probably lagging somewhat behind the U.S.A. and being content to do so, rather than adopt the American way of industrial life in full, until some cataclysm causes us to take fresh thought. Perhaps we shall learn in time how to maintain productivity and also relax the pressure on the individual in industrial.

From "The Essentials for Increased Productivity", Three Banks Review, London, December, 1950

Is U.K. Export Surplus the First in History?

THE Chancellor's remark that this country is exporting more than it imports for the first time in " something like a hundred years " has caused some hurried search among ancient trade statistics. It is only since 1871 that imports have been entered in the trade returns at the value declared to the Customs. Since then exports have never come within 80 per cent. of imports in any one year.

Before that time imports were entered at fixed " official " values for

 From Manchester Guardian, December 23, 1950

each group of commodities. Until 1853 this list had not been changed for more than a hundred years ; it was meant to measure the volume of goods coming in rather than the value. In 1854 the list was brought up to date and two years afterwards the official import and export figures came within 20 per cent. of each other. If freights are taken off the import value and allowance is made for the fact that ships were not then included in the export figure the merchandise trade of the United Kingdom may have been just balanced in 1856. We are assured by historians that this explains the assumption often made that there was an export surplus in the fifties.

It seems fairly safe then to say that the export surplus of the last four months was an entirely new fact in British history. The plain Customs figures do not actually show a surplus but imports were less than 10 per cent. above exports and that is the least one should deduct for freight charges paid to British lines. At first sight it looks as if this country has at last succeeded in adapting itself to its new debtor position in the world. But there have been some exceptional tendencies at work. The export surplus which has been rising from month to month is due more to an expansion of exports than a slowing down of imports. Obviously we are watching the first effects of the stimulus applied to exports by devaluation while the higher import bill has not yet come in. In fact imports have been below current needs and stocks in this country have been run down. Within a month or two the value of imports is bound to rise sharply and, though the demand for British exports may well keep up for some time, rearmament will begin to interfere with the supply.

In any case the " favourable " trade balance is not an unmixed blessing. It has been stimulating inflationary pressure here. The people who make the export goods are being paid, but the supplies which they will want to buy with their earnings are shipped out of the country. From this point of view the export drive has perhaps succeeded too well.

PUBLICATIONS OF UNITED NATIONS AND SPECIALISED AGENCIES

Economic and Legal Status of Foreign Investments in Selected Countries of Latin America. *U.N. Economic and Social Council, Document E/CN* 12/166. This is a mimiographed document, and deals with eight Latin American countries.

Quarterly Bulletin of Steel Statistics for Europe, *No.* 1, *Geneva, December* 1950. This new publication of the Economic Commission for Europe presents figures of the production of iron and steel and the consumption of the main raw materials in seventeen European countries up to September 1950. Data for 1936/8 and 1946/8 are also included. By putting the figures on as comparable a basis as possible the Bulletin fills a gap in our previous knowledge. Later issues will add data on the distribution of steel by consuming industries and on foreign trade. A valuable addition to statistical records.

F.A.O. Commodity Reports : *Grain, Washington, November* 20, 1950. Supplementing the detailed bulletin which appeared in May, and based on information available up to October 15.

F.A.O. Commodity Reports : *Sugar, Washington, November* 22 1950. A survey of the world sugar position as at the end of October last. Preliminary estimates for 1950/1 are included.

The Consolidation of Fragmented Agricultural Holdings, *F.A.O. Agricultural Studies No.* 11, *Washington, September* 1950. A general survey of the problems by Sir Bernard O. Binns, and four special papers dealing with experience in Denmark, France, Ireland and Switzerland.

Economics of Scotch Whisky

by DUNCAN FERGUSON

WHISKY has been made in Scotland for so long a time that we are apt to think of it as a native. But it is believed to have come to us from Ireland, through Argyll and thence north and east. *Uisge beatha*, or water of life, the Gael called it, and the numerous distilleries scattered throughout the Highlands bear testimony to his taste for the *uisge* ; the esteem in which he held it is shown by the habit, not long dead—if indeed it be dead—of saying a grace before taking a dram.

The whisky of to-day is a blend of two types—the strong malt whisky of the Highlands and the softer grain whisky of the Lowlands.

Malt whisky is made in what are known as pot stills, the great majority being located on Speyside. Barley is steeped in pure cold water until it is soft. Then it is spread on malting floors where germination, assisted by turning with wooden shovels and the maintenance of a suitable temperature, begins. After 12 or 14 days the green malt, as it is termed at this stage, is kiln-dried, a process which takes three or four days. The kiln floor is made of wire mesh and heat is provided by a peat and coke fire. It is the smoke from the peat passing through the malt, also the use of waters found in certain districts of Scotland, such as the red granite area of Speyside, which give Highland whisky its characteristic flavour. After maturing for five or six weeks in bins, the malt is ground. The grist, as it is now called, is mixed with hot water as it drops into the mash tuns. A succession of waters is run on to the malt, the mixture being stirred and allowed to infuse. In this way the sugar in the malt is extracted and the liquid, now called worts, is fermented with the aid of a small quantity of yeast. The fermentation, which occupies two or three days, converts the sugar into alcohol. The liquid, by this time termed wash, is then distilled and redistilled. At last the whisky emerges. But it is not yet ready for use. Run into oak casks, preferably those which have previously contained sherry, it is removed to bonded warehouses and left to mature.

Grain whisky is distilled in or near Edinburgh and Glasgow, in Fife and elsewhere in the Lowlands. The raw material is not pure malt but a mixture of malt and unmalted grains, such as barley, maize and oats—though barley only has been used in recent years—and a patent still—the Coffey—is employed. Otherwise the process is similar to pot distilling. Grain whisky is made all the year round, while the distilling of malt whisky is confined to a period beginning in October and ending in April or May.

After maturing, which takes from

From Scotland's Resources, A Survey, Scottish Convention, Glasgow

ten to twelve years for malt whisky and about five for grain, comes blending. The blending warehouses are chiefly in Perth, Glasgow, Edinburgh and Kilmarnock. Marrying follows, the mixed whiskies being stored in casks for up to twelve months. Finally comes bottling.

The industry requires 300,000 tons of barley a year to enable it to work to capacity. It was allocated much less during and immediately after the war, but the ever-growing demand for exports has led to the Government allowing it to satisfy its needs. From 300,000 tons it can distil some 30,000,000 proof gallons. Current sales are much lower, the prime task being to build up stocks, depleted during the period of barley scarcity.

For the year beginning May 1, 1950 the industry was set the task of exporting 9,600,000 gallons to overseas countries, three-quarters of that amount being reserved for dollar markets ; and was given permission —we are living under a planned economy—to sell 2,600,000 gallons in Britain. What does this represent in terms of money ? During 1949, 5,000,000 gallons, of the value of £11,000,000 were sent to the United States, which takes about 5 per cent. of its whisky from Scotland ; and 3,520,000 gallons, of the value of £7,240,000, to other overseas countries. Probably not much more than one-tenth of the 2,000,000 gallons released to the home market remained in Scotland, so when the quantities sent south are added to the overseas exports we find that whisky to the value of over £20,000,000 left Scotland in 1949. Since devaluation the overseas export value of whisky in terms of sterling has increased, and as there is no reason to doubt that the 1949 overseas sales will be improved on.

The foregoing figures take no account of duty, which has stood for long at £10/10/10 a gallon, or £1/4/7 a bottle, but are concerned only with the value of the commodity. An export of over £20,000,000 by a semi-rural industry employing only a handful of men is truly prodigious. As the bulk of the overseas exports go to the American countries, the return is in the much esteemed dollar. Scotch whisky is one of the largest single exports to the United States.

The extract printed above comes from an interesting and perhaps overdue booklet. Overdue because the home-rule movement in Scotland has gathered force in recent years, but it has been mainly a movement of politicians and lawyers, and the critical economic considerations have been largely ignored. **Scotland's Resources, A Survey** by Duncan Ferguson, was commissioned by Scottish Convention to fill the blank.

Both author and sponsor repudiate the notion that they are interested in a policy of self-sufficiency for Scotland, which is "crude folly". Yet "circumstances are compelling us more and more to live on our native produce".

Fair enough. And if one has a general impression that the survey does in fact seek to show that, if need be, Scotland could live on her own resources a great deal more comfortably than England could live on her's why should an Englishman bother to answer back.

First farming, with lyrical passages on Scottish skill in stock-breeding, in which Scotland excels. Even pigs, which interest Scotland least, are not despised in Scotland. The wartime decline in the pig population has already been more than made good. The bacon curing industry represents about 12 per cent. of the total output

of Great Britain". Beef, lamb and mutton production, added to pork, are sufficient to give every person in Scotland "rather more than ten ounces a week". Before the war Scotland was producing more meat than her sons (at home) devoured and "our country could face with equanimity the prospects of having to rely on home production of meat in future".

In wheat there seems to be a current deficit amounting to about half-a-million tons of flour, and here Scotland must be careful lest her efforts to produce more flour would mean that "we may substitute indifferent wheat for good oats", for "Scottish wheat is unsuitable for making bread". As to oats, "it is clear that we are still growing far more than we require".

Barley? Scotland's industries need about 420,000 tons a year, "which is something like 300,000 tons more than we grow . . . But the bulk of whisky is exported . . . We import barley and re-export it in the form of whisky and beer".

In fish also Scotland is rich and "provides not only sufficient for our own needs but a generous margin for export".

"Power in Plenty" is the title of chapter three. Scotland is rich in coal and falling water. Falling water is expected to produce well over 6,000 million units of electricity when the North of Scotland Board's schemes are completed—in the 1960's. "England has no counterpart of this tremendous asset".

Iron and Steel continue the courageous story. "Is the steel industry equal to Scotlands's requirements? The answer is that just as it draws its raw materials, in greater or lesser quantities, from the five continents, so it caters for the world". Shipbuilding, too, has the world for its parish, but at this point the author halts to shudder, and not without reason. "Shipbuilding and engineering, relying to a substantial extent on other countries for raw materials and markets, are likely in the future as in the past to be highly vulnerable to favourable world conditions. This is the Achilles heel of Scotland. Present Government policy, of concentrating production on exports, is enlarging the vulnerable area".

There are many ups and just a few downs in the studies of chemicals, forests, clothing, and furnishing, but a tremendous up (as is indisputably just) when the study turns to "food for the mind". And in conclusion—what? In these days when we spend half our time screaming for world-governent, and the other half pleading much more sensibly for devolution of government, must Englishmen begin to think of Scotland as a foreign country? The survey is judicial, almost non-committal:

"If Scotland decides to continue in union with England she can do so in the knowledge that she is contributing more to the common pool than she is drawing out. She can hold her head high. If she decides to resume control of her own affairs she need have no fear of her capacity to maintain her people in a better standard of comfort than they at present enjoy. Adjustments would be necessary. Like every country under the sun, even the United States, Scotland requires to buy many commodities from abroad. But she should limit her exports to the amount required to pay for these commodities. For the rest, her economic energies should be directed inwards."

Perhaps the next survey commissioned by Scottish Convention might have something to say about the complications which have to be introduced into this picture when considerations of military defence are admitted as relevant to economic policies.

H. S. G.

Worth Reading

Denationalisation of Railways. *J. P. Hourston, Fighting Fund for Freedom, London November* 1950. This pamphlet, by way of countering the argument that it is impossible to denationalise a nationalised industry, seeks to show that it can be done by explaining just how it could be done. It is interesting as an exercise, even to those who are convinced that denationalising the railways of Britain is not in the realm of practical politics.

European Anti-Cartel Trends. *Richard Evely, Cartel, International Co-operative Alliance, London, October* 1950. A study of Government plans for dealing with cartels so far as the (quite inadequate) information is available.

Five Years Later. *Italian Economic Survey, Association of Italian Joint Stock Companies, Rome, October* 1950. A thorough study of Italy's economy during the last five years. Most of the statistics are given up to the middle of 1950 and in some instances even later.

Wool Letter. *National Bank of Australasia Ltd., Melbourne, October* 27, 1950, Problem arising out of current high prices of wool. Available at 7 Lothbury, London E.C.2.

Development Plan for Federation of Malaya. *The U.K. Trade Commissioner in Malaya, Board of Trade Journal, London, November* 11,1950.

Western Europe's Tourist Trade in 1949. *Ernest W. Wimble, British Trade and Holidays Association, London.* An authoritative factual statement.

National and Per Capita Incomes of Seventy Countries in 1949, *Statistical Papers Series E. No.* 1. *Statistical Office of the United Nations, New York, October* 1950. Makes available, for the first time, estimates of per capita incomes of different countries, expressed in U.S. dollars. The limitations attached to the estimates are emphasized.

Trade Trends and Policies of Latin American Countries. *Economic Commission for Latin America, Document E/CN* 12/165, *United Nations, New York, June* 1950. A useful Survey of developments up to the end of 1949.

Balance of Payments Yearbook 1948 and Preliminary 1949. *International Monetary Fund, Washington,* 1950. The second book in the series started by the I.M.F. in 1949. The number of countries covered has increased from 51 to 58 and the scope of regional information has been extended. An indispensable reference book.

New Zealand's Power Resources, *The Times Review of Industry, London, January,* 1951. Geothermally generated steam is New Zealand's great asset in power production for the future, since the end is in sight of the development of hydro-electric power.

Burma's Unexploited Mineral Wealth, *The Times Review of Industry, London, January,* 1951.

Monopoly Legislation by C. A. R. Crosland, m.p., *Socialist Commentary, London, January* 1951. The Monopoly Commission has failed, and a new policy decision is needed to make it effective.

The Demand for Farm Products, *Monthly Review of Bank of Nova Scotia, Toronto, November* 1950. A Survey of post-war experience.

Further Facts and Figures Concerning the Deconcentration of I.G. Farbenindustrie A.G., by Professor H. Gross, *Institut fuer Weltwirtschaft, Kiel,* 1950.

Report on Currency and Finance for 1949-1950, *Reserve Bank of India, Bombay,* 6/-. A full survey of financial and economic developments in India with ninety-three statistical tables.

The Effect of Death Duties on Industry by T. A. HAMILTON BAYNES, *Report of Summer Course* 1950, *Institute of Chartered Accountants in England and Wales, London.*

The Railway Problem in Italy by GLAUCO DELLA PORTA, *Quarterly Review, Banca Nationale del Lavoro, Rome, September* 1950. A study of Post-war changes, advocating co-ordination of Rail and Road Services.

Home Grown or Foreign ? *District Bank Review, Manchester, December* 1950. Strategic considerations apart, should we be better off in Britain if we became a purely industrial country and bought what food we need from abroad ? The answer seems to be No.

Cost of Living and Rents, *Labour Research, London, December* 1950. The important and highly variable item of house-rent in the cost of living is held to be distorted in the now notorious Cost of Living Index.

Can We Get 300,000 Houses a Year ? *The Times Review of Industry, London, December* 1950. Amplification of the much disputed claim of the Conservative Party to be able to reach this target.

Germany's Growing Trade With Latin America, *The Times Review of Industry, London, December* 1950. German industrialists hope to make permanent the gains of Schacht under Hitler's regime.

The Art Trade : Import and Export, by C. V. PILKINGTON, *Three Banks Review, London, December* 1950. London is traditionally the great market for works of art, but there is a considerable decline in earnings, mainly because of " too careful control of imports from abroad ".

Some Aspects of Transport Policy Today by C. F. CARTER, A. R. PREST and A. D. ROY, *London and Cambridge Economic Service Bulletin, London, November* 1950. The thorough and responsible study that one would expect from this Service and these authors. Among other things, it demolishes the popular idea that transport rates, like postage rates, can be uniform, irrespective of distances.

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WESTMINSTER BANK LTD.

(*Continued from page 77*)

During the year demand in several lines of business was curtailed, and there was a widespread impression of there being "less money about", but in fact the explanation of this impression lies in the changed directions of demand. Statistics of retail trade show that as a result, no doubt, of higher prices and the greater selection of goods on offer in the shops, money was drawn away from entertainments and semi-luxuries and spent on essential goods, such as groceries, clothing, and house furnishings. The total amount spent by the public on their living expenses was probably greater than ever before.

The appointment of a strong Royal Commission under Lord Justice Cohen to inquire into the present system of direct taxation is a sign of a tardy recognition of the bearing of this matter on economic efficiency, although the exclusion of the level of taxation from the terms of reference makes the Commission's task more difficult.

It would seem that the only real contribution that the private individual can make towards the lowering of the level of taxation is to kill the idea, which is by no means confined to the lower income groups, that "the State will pay." We used to be told that the State purse was not inexhaustible; that is an understatement; the State purse does not exist.

We need to get public opinion mobilised against waste. As an instance of waste, Lord Aldenham quotes figures of estimates and expenditure on the National Health Service, and says there may be waste in administering the Service; there is certainly waste in the use made of it by the public. No Government can provide the nation with an economical Health Service except with the co-operation of the individual.

There is no doubt that we in this country face yet again the possibility of a great war. If the Dunkirk spirit can be roused in the nation throughout 1951, we can show all the freedom-loving nations that we are once again making ready to shoulder more than our fair share in the defence of liberty; and we may well be able to reach such a position of strength in twelve month's time that we can look back and say "One more danger squarely met."

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concludes that the expansion must have been due overwhelmingly to the changed external position. Nevertheless, it would be wrong to regard the increase with complete equanimity, particularly in the light of foreseeable factors making in themselves for further expansion. One of these is the prospective rise in Government expenditure, particularly on account of defence, which, having regard to the exisiting level of taxation, will not be easy to provide for out of revenue while leaving still a substantial budget surplus to cover "below-the-line" outlays. It is relevant here to remark that, in order to exert full disinflationary effects, taxation needs to have its impact on incomes and private spending; taxes which have the result merely of transferring capital are largely ineffective for this purpose. In the non-Governmental field, moreover, there seem to be indications of continued expansive pressure through the upward trend in bank advances. It would not be surprising if a trend towards monetary expansion were to continue unless measures to combat inflationary pressure are adopted which go nearer to the source of the trouble than those so far employed—unless, in particular, the heavier re-armament outlay can be brought within the compass of the present volume of Government spending.